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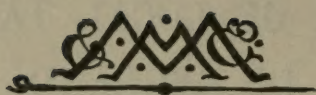


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REFORM OF LOCAL TAXATION
IN ENGLAND



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AN ESSAY
ON THE
REFORM OF LOCAL TAXATION
IN ENGLAND

BY

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London
MACMILLAN AND CO., LIMITED

NEW YORK: THE MACMILLAN COMPANY

1902

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I WOULD INSCRIBE THIS ESSAY TO MY OLD MASTER

PROFESSOR LANGE

KÖNIGLICHES GYMNASIUM, DRESDEN

who, when I left him to take up the profession of business, took leave of me with the words: *Legen Sie die Wissenschaft aber nicht ganz beiseite.* As a reply to this kindly exhortation, I avail myself of the most graceful privilege of an author,

AND

DEDICATE MY WORK TO HIM

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PRELIMINARY SURVEY

THIS essay is the result of a study on which the author has been engaged for a number of years. In connection with his profession he has been called upon to make himself familiar with the practical features of local finance, and an academic obligation led him to investigate the subject in its theoretical aspects. During three years the writer held a scholarship in Political Economy at Edinburgh University, and was bound by the conditions of tenure to engage in independent research. Partly, the present thesis is written in fulfilment of this obligation. But for venturing to give the matter so public a form, and for joining in the discussion of a question which has already been ventilated by so many and so eminent students, further excuse must be given.

A Royal Commission, with instructions to inquire exhaustively into our system of local taxation, has published its final report. Five years were spent in deliberations, and eleven volumes containing evidence, memoranda, and reports testify to the activity of the members. With feelings of the keenest expectation the country looked forward to the findings of this Commission. Ratepayers who have grievances, students who are concerned for the welfare of local government,

all hoped that such prolonged and laborious research would lead to proposals for statesmanlike reform. The report is before us, and what is it that is suggested ?

The findings of the commissioners cover two points: local taxation and central subventions. In regard to local taxation no alterations of any kind are proposed in the existing system. The recommendations for the future relate exclusively to grants in relief. It is suggested that the details of the present arrangements for regulating central relief should in some respects be recast, and that the amount of the subsidies should be increased by about two million pounds. Five out of fifteen commissioners add a proposal called a plan for the rating of site-values, but in reality the scheme aims at little more than neutralising any effects which the suggested additional grants might have in relieving urban landlords instead of tenants. Practically, therefore, everything is to go on as of old. In the whole history of local rates there has never been a measure of reform; the commissioners do not consider that a beginning should be made now. What the government has always done, when pressed by its discontented subjects, has been to give a subvention; the precedent is to be followed.

It is three-quarters of a century ago that the first grant in aid of rates was voted, and the device has now become the stock expedient of our legislators. Since the day when the discontent of ratepayers led Lord Melbourne's administration to give a few thousand pounds for the mitigation of acknowledged hardships, the subsidies have steadily increased. So invariably has the remedy been applied that the cost

to the national taxpayers now reaches a total, in respect of England and Wales alone, of twelve million pounds per annum.¹ But has this time-honoured nostrum been so very successful that we ought to limit our efforts to establishing it and extending it? Can any one claim that the grants have removed the grievances? The circumstance which led to the appointment of the Royal Commission is nothing else than the undeniable continuance of discontent under twelve million pounds of subventions. The reporters themselves do not seek to conceal the fact that, in spite of this wholesale relief, complaints are as bitter as ever. Lord Balfour's list of objections to rates is, indeed, more formidable than Lord Melbourne's. Yet the Royal Commission recommends a settlement by making twelve million pounds of subsidies into fourteen millions.

Surely this is not a suitable proposal to make on so important an occasion. Men whose opinions deserve to be weighed have expressed the gravest apprehensions that the subsidy system of finance is thoroughly unsound. The money given out of central funds is spent by authorities who do not raise it, whose constituents exercise no influence on their contributions either by economy or by extravagance. The expedient is, therefore, full of danger. The whole conception also is unworthy of the traditions of English local administration. Looking to the future, the proceeding is more objectionable still. Many people trust that a solution of some of the gravest problems of

¹ For 1898-99, the last year for which the figures have been published, the amount was £11,795,000 (exclusive of subventions *in lieu* of rates), No. 324 (Part v.) of session 1901, p. 52.

modern civilisation will be found in extended parochial and municipal self-government. How can decentralisation ever grow into a trustworthy institution if its finances remain the perennial cause of agitation; if its independence is sapped by veritable inundations of grants and doles?

But subvention, as the accepted principle by which to guide the development of local finance, is open to censure on grounds which are more than merely speculative. There are objections to the system of immediately practical moment. The present grants are not only unprincipled as a policy; as a device for removing discontent they stand condemned. They are given to remedy grievances, and experience has shown that they fail in their object. Discontent continues and grows. If we consider for a moment, our common sense will point out the reason of failure. It is this: grants in general aid leave the respective contributions of individuals exactly as they were. Our payments may be lessened all over, but the method by which our shares of taxation are determined remains unaltered. Consequently it follows that if the rates some of us pay were inequitable before, they must be so still. A man has a grievance in paying more than his neighbour; he finds his rates reduced, and his neighbour's, in equal proportion. It is true, ratepayers pay twelve millions less than they otherwise would, but the same old rates are imposed to raise what they do pay, and that is forty millions. The local taxation levied annually in England and Wales is unaltered in any respect; it is lowered in general, but it is not made equitable by subventions. Grants, in fact, are nothing but an attempt to reduce rates to

harmlessness. The commissioners agree that local taxation is full of inequity. A manufacturer, for instance, who requires large premises and much machinery, pays heavy rates; his neighbour, whose trade yields equal profits but calls for less expenditure on "ratable property," gets off with light rates. To reform this inequality the commissioners refuse. What they propose to do is to supersede rates. They calculate the minimum of local taxation which is compatible with a profession of regard for economical local administration, and down to this very limit they offer to prune. But will ratepayers become content if their forty million pounds of inequitable rates are made thirty-eight million pounds of inequitable rates?

A new principle has lately been introduced into the system of aids: the device of particular grants to special sections of the community. Farmers who pay rates on their full rent are much more heavily burdened in proportion to their income than a manufacturer, who is taxed by his full rent. The clerical owners of tithes and tithe rent-charges are also rated out of all proportion to their neighbours. These points no reasonable person can deny. The government has sought to remedy matters by making a radical departure from the hitherto accepted principles of local taxation. They have abandoned the maxim that rates can only be superseded in general, and instead, they have reformed the contributions of the individuals whose grievance appealed to them. This has been done by means of the so-called Doles. Farmers had been given a special grant before the Royal Commission was appointed; on the recommendation of an interim report from the Commission,

the same has now been allotted to parsons. What is the result?—the result is two-fold. In the first place, these ratepayers are now content. In the second place, the national taxpayers have to incur an annual expenditure of considerably more than a million and a half pounds, this being the price at which the grievances of farmers and parsons have been removed. Obviously such a method of reform must not become general. The new process may be successful, but not only does it undermine independent local government, it is costly to the extent of being prohibitive. It is, therefore, with satisfaction we learn that the Royal Commission does not recommend the government to proceed further with this novel device. But we demand to know more. We demand to be told what are the guarantees that the method applied successfully to farmers and parsons will not be extended. Our security, we find, is an opinion recorded by the majority of the Royal Commission. Any extension of the principle of exemption these reporters strongly condemn.

Two members of the Commission¹ tried to advance the claims of urban ratepayers. It was pointed out that the poor spend a very much larger share of their income on “ratable property” than the wealthy. One knows that the poor in towns spend in some cases $\frac{1}{3}$ rd of their earnings on rent; a millionaire probably spends about $\frac{1}{50}$ th. It was also pointed out that many traders, and not only farmers, have to pay much heavier rates in proportion to their profits than others. The two dissentient commissioners seem to

¹ Rt. Hon. C. B. Stuart-Wortley and E. Orford Smith. (See reservations in signing report. Final Report, p. 63.)

have reasoned that what is sauce for the goose is sauce for the gander. The argument was overruled. The report of the majority, and the reservations by the minority, were laid before Parliament, and the same question was raised when the renewal of the Dole Act was under debate. The claims of other ratepayers were again brought forward, but the speakers were a negligible minority. The great question is just this: How long is it to be expected that the body of ratepayers will permit farmers and parsons to remain the only people who can obtain a hearing for their individual grievances?

A case in point occurred recently in Scotland. Churches and chapels are exempt from local taxation all over the United Kingdom, but it has recently been decided that, by a strict interpretation of the law, mission-halls must be rated. Many other institutions have from time to time succeeded in securing the privilege of exemption.¹ The premises of literary, scientific, and artistic societies are free from rates, so are volunteer and militia storehouses and voluntary schools; property occupied by or for the Crown is also exempt, as court-houses, police-stations, etc., etc. The churches in Scotland feel the rates on their mission-halls a grievance. An influential deputation waited on the Secretary for Scotland, the Chairman of the Royal Commission, to press this point. Lord Balfour founded on the report of the Commission. He read out the relative passage in the finding of the majority: "We think that no further extension of the principle of exemption should be permitted." This, the chairman said, was the outcome of the

¹ Final Report of Royal Commission on Local Taxation, chap. xi.

commissioners' earnest deliberation, and embodied their fixed policy. The petitioners were dismissed with words which, the newspaper report said,¹ told them firmly that their case could not be considered. Nothing could be more uncompromising.

In as far as exemptions involve doles, every one who wishes to avert the ruin both of local administration and of national finances will most heartily concur in the emphatic recommendation of the majority of the commissioners. If individual relief is to be given, not only to farmers and parsons, but to every one else who has an admitted grievance, then utter disorganisation is the inevitable consequence. The commissioners may well draw a line. But what reason is there to rest assured that the opinion recorded by the majority will be followed? Do the commissioners not remind one of Canute sitting on the sea-shore?

That the Scotch churches will get what they want may be taken for granted. Should the proposal to introduce a Private Bill be adhered to,² the government can only oppose the measure at the risk of incurring the hostility of a powerful interest, for—judged on its merits—the case in favour of exemption is obvious. More than half the members of Parliament for Scotland have signified their adherence to the views of the petitioners; many of them were members of the deputation. And when the cases of farmers, parsons, and Scotch churches have been disposed of, it requires no gift of prophecy to foretell

¹ *Scotsman* newspaper, 23rd October 1901.

² Negotiations have been opened by the Church of Scotland to secure the co-operation of the Church of England, which finds itself in the same position, in order that the Bill may be made a general one. Proceedings have thus been delayed.

that urban ratepayers will come next, and after that any one else who establishes a grievance and can record a vote. More prophetic insight is necessary to conjecture what the Chancellor of the Exchequer will do under these circumstances. A vivid imagination may perhaps picture the taxes he will impose. A graphic pen may also describe the condition of local government under a *régime* of universal doles. Let the Royal Commissioners proclaim against the extension of exemption—they take up an impossible attitude. The grant to farmers they commend. To establish the case they ransack the reports and opinions of the last half century. They quote the evidence of Samuel Goodman, proprietor of the Brighton coach in 1836;¹ they bring forward John Spier from Glasgow,² and Evan David from the Vale of Glamorgan;³ they go into particulars about lorries⁴ and “odd horses,”⁵ and treat the subject in exhaustive detail. Anything they collect, even the absurd, if it seems to tell in favour of the measure; they do not state a single argument that has been advanced on the other side. Emphatically, enthusiastically they relieve the farmer. As regards the parson, they do not even wait to finish their deliberations, but issue a special interim report in order that his case may be immediately dealt with. Then suddenly they pull up. They draw the line. So far, they cry, and no farther. That is rhetoric, it is not reason. We have in the commissioners’ report not the basis of a lasting settlement, but the foundation of endless claims, incalculable expense, and the certain decline of local government.

¹ Final Report, p. 34.

² *Ibid.* p. 35.

³ *Ibid.* p. 34.

⁴ *Ibid.* p. 35.

⁵ *Ibid.*

It ceases to be an academic exercise, it becomes the public duty of every one interested in finance earnestly to approach the subject of a reconstruction of our rates. Grants in general reduction have proved themselves useless, and they are also extravagant. Doles provide an effectual remedy, but at a sacrifice which is appalling. There are forty million pounds of rates remaining, which steadily increase. In thirty years rates have doubled. This mass of taxation cannot all be whittled down and subsidised into harmlessness. For three-quarters of a century the government has harped on Abolition, it is time to aim at Reform.

The Royal Commission reports that rates can only be superseded because they cannot be altered. The commissioners give a counsel of despair. This conclusion is based on several propositions. In the first place, rates are divided into two groups: (a) Rates levied for purposes of general interest, like education; these rates are distinguished by the name "national" or "onerous." (b) Rates levied for purposes of purely local interest, like street-cleaning; these rates are described as "beneficial." In regard to this latter class, the commissioners consider that no steps whatever should be taken,¹ *i.e.* that no central relief should be given in respect of such rates. It is exclusively to the "national" group that the reporters have applied their recommendations. The following purposes of local expenditure are held to belong to the "national," or "onerous" class: poor-relief, police,

¹ The minority proposal of five out of fifteen commissioners for the rating of site-values is an exception to this position. See Final Report, p. 153.

education, registration, valuation and sundry expenses of administration, main roads.¹ These services, by nature of general interest, and thus falling into the sphere of national taxation, are delegated to local authorities for the purpose of securing supervision in detail. Regarding the proper method for defraying the expenditure under these heads, the Commissioners conclude :—

1. The funds to meet local “national” expenditure ought to be raised, like central taxation, from the wealth of the country in general.
2. The national wealth subject to central taxation consists to one-quarter of real, to three-quarters of personal property.
3. Local rates are imposed exclusively on real property.
4. To impose taxes locally on personal property is impossible, chiefly because of the highly intricate checks which have to be devised for preventing fraud and evasion.
5. Grants out of central taxation offer the only solution.

The whole structure of this argument hinges on the proposition that personal property does not at present contribute to rates. There is an almost universal belief that in regard to local taxation we may distinguish between two classes of property: ratable property and non-ratable property. The first is supposed to bear the burden of local taxation, while the second is exempt. This popular belief that rates fall exclusively on ratable property is based on

¹ Final Report, p. 12.

two theories, one of which is historical, the other speculative.

The historical theory is advanced to prove that there was once a prevailing impression that personal property was intended to contribute to local taxation. The history of rates is usually explained in this manner:¹ Local taxation is founded on the Poor Law Act of Elizabeth. This statute ordered funds to be raised from both "inhabitants" and "occupiers," "according to the ability of the parish." The direction was believed to involve contribution from all sources of wealth. But personal property evaded the local assessor, and slipped out of assessment. The disputes which arose led to appeals to the law-courts for a declaration of the intention of the legislature. The courts gave their famous decisions that the prevailing opinion was an error, and that the legislature had intended rating to be confined to property which was *local, visible, and profitable*. All property which did not come under this description was held to be by law exempt. This judicial interpretation of the statute made it illegal to rate any personal property except stock-in-trade. A trader's stock was local, visible, and profitable, and therefore ratable. The extreme inconvenience of assessing stock-in-trade, an inconvenience which was so great that most local authorities made no attempt to put the law into execution, created an agitation for the repeal of the liability of stock to be rated. A Bill for this purpose was introduced into Parliament in 1840, but the

¹ The best existing account of the history of rates is contained in a voluminous report issued by the Poor Law Commissioners in 1843. *Parl. Papers*, vol. xx. of that session.

legislature hesitated to adopt a measure which, as it believed, swept personalty for good out of the sphere of rates. The Act was passed for one year only, pending full consideration of the subject. Annually the statute has to be renewed, but it has now been continued by Parliament more than sixty times without alteration. History is thus held to prove that personal property, although in equity it undoubtedly ought to contribute to local taxation, is by law exempt.

There is nothing new in questioning the validity of this theory. There have been people who have pointed out that rates are not an assessment on landlords but on tenants; that local taxation is not imposed in respect of the ownership of property, but in respect of occupation. In as far as occupation of real property is a criterion of general ability, an occupier's rate is nothing else than a rough form of income-tax. The following discussion on this point is reported in the minutes of evidence taken by the House of Lords' Select Committee on Town Improvements: ¹—

Mr. Dickinson (Deputy Chairman, London County Council).—The reason why you rate people on property is because it is the best criterion of the measure of the ease with which a person can bear rating; that, I believe, is the whole principle on which the rating of annual value depends.

Marquess of Salisbury.—It is rather a formidable doctrine to lay down, is it not?

Mr. Dickinson.—I did not know that I was laying it down. I thought it was a doctrine laid down long ago.

Marquess of Salisbury.—You used the word "ease"?

Mr. Dickinson.—I did not mean "ease," because it is not usually considered as "ease."

Chairman (Lord Halsbury).—I am not quite sure where that

¹ *Parl. Papers*, No. 292, session 1894, Q. 2011-14.

principle comes from. The reason you are rated is because the Act of Elizabeth says you shall be.

This legal opinion on a question of history is commonly accepted, most unfortunately for the proper understanding of the subject. Every one who has taken the trouble to read the Act of Elizabeth knows that it does not say one word as to how rates are to be imposed. The Act enumerated the persons to be taxed, but said nothing whatever regarding their contributions. On the contrary, it provided that the persons enumerated were to be taxed by the local authorities "as they shall think fit."¹ The expressed intention of the legislature was that local authorities were to assess rates according to their discretions—as the statutory phrase was, "according to their good discretions." The celebrated Poor Law Act introduces no new principle into local finance, still less is it the origin of our rates. Local taxation does not commence with the Poor Laws, but is older by as many centuries and more as separate us to-day from the passing of the Act of 1601. From time immemorial local authorities have levied rates according to ancient custom, and to this day they continue to do so. Neither the Act of Elizabeth nor any other Act has interfered in this matter. The courts stereotyped local custom by their decisions, and the Acts of 1836 and 1840 codified the case law and the various practices which they found existing, but no statute has ever regulated local taxation in the sense of making even the most trivial contribution to the subject. Professedly local usage has been accepted, and to explain this usage we must go behind the

¹ 43rd Eliz. cap. 2, § 1.

enactments of the legislature. For the historical solution of the problem of rating, it seems that we must go to France. Following out the observation made by Dowell in his great *History of Taxes and Taxation in England*, that many of our financial expedients have been imported from France, we find new light thrown on the development of local rates. The Conqueror made the Domesday¹-Book, and imposed taxes on land after the continental model of a cadastral survey. When the anarchy of Stephen's reign was terminated by calling over Matilda's son, Henry, who was a powerful prince in France, a further innovation was introduced from abroad,—the taxes on movables. These taxes, generally known as Tenths and Fifteenths, became firmly rooted in England, while the old taxation of land died out about 1224, without leaving a trace on the institutions of the country. The fractional grants of movables were assessed by local authorities from the year 1334 onwards, and in the manner of assessment these authorities were entirely unfettered by statutory regulations. Local usage and ancient custom were the only known basis of taxation. Our rates are the direct descendants of these old exclusive taxes on movables. They have not the remotest connection with a desire to tax real property.

The first two chapters of this essay are devoted to a full consideration of this question. In the country of their origin we find the two taxes, the land-tax and the tax on movables, side by side to this day. The *contribution foncière* is the tax on land, the *contribution mobilière* is the tax on movables. This tax on movables is assessed on occupiers' rent. The newer French

tax, the *contribution de patente*, a tax on trades, is also assessed to a large degree on occupiers' rent. Our gallant neighbours would be considerably astonished if they were told to regard occupiers' taxes on rent as exclusive burdens on real property. They regard them as a rough form of income-tax.

The second theory, which is held to prove that local rates fall exclusively on real property, is speculative. When a person takes a house or other premises it is argued that he deducts the whole of his rates from the rent he "offers" to the landlord, and thus shifts local taxation entirely on to real property. This theory may be very briefly dismissed. Its supporters describe it as a "law" of political economy, but they are unable to quote the opinion of a single economist of repute in support of their contention. From Adam Smith downwards no economist has advanced the theory that a tenant can transfer his rates on to the owners of real property by making an arbitrary "offer." The mere existence of occupiers' grievances is sufficient to disprove this speculative theory. If ratepayers deducted the whole of their rates from their rent they would regard local taxation with complete unconcern.

Of a very different nature is the scientific theory that an occupier's income-tax, based on rent, has what in technical language is called "incidence" on owners of real property, or, to use the modern and more intelligible phrase, has "effects"¹ on the owners of real property. There can hardly be a doubt that a house-duty, like any other duty on what Adam Smith calls a "consumable commodity," diminishes the con-

¹ See *Economic Journal*, vol. x. p. 172.

sumption of the commodity, and thus does pecuniary harm to the purveyors of the commodity by diminishing their market. It is not, however, usually realised that this "effect" on landowners does not involve a payment of the tax, or even of a portion,—that is to say, that it brings no relief to the rate-payer. Sixteen financial and economic experts were examined by the Royal Commission, and a valuable synopsis of the evidence has been prepared by one of the most eminent of their number, Professor Edgeworth.¹ The teaching of the economists is that, as far as the house-duty is equal between district and district, the occupier will live in a smaller house and pay the tax applicable thereto, while landowners will only suffer as a general body, because the quantity of building land demanded is less.² "Indeed, the question has been raised," so wrote Professor Edgeworth³ in the memorandum he prepared for the Royal Commission, "whether an effect of this sort—detrimental to a certain class without any corresponding benefit to the Exchequer—can properly be described as the *incidence* of a tax" (the Professor's italics). As far as the house-duty is higher in one place than another, a burden corresponding to the difference may, under certain strictly limited conditions, be thrown on landowners, but we find that this burden is infinitesimally small, even calculated according to the laws of abstract science.

Rates, in as far as they do not fall on landowners, are taxes on general wealth. As such they have been regarded since the commencement of the science of

¹ *Economic Journal*, June, September, and December 1900.

² *Ibid.* vol. x. pp. 183-193 (June 1900).

³ *Parl. Paper*, c. 9528, Session 1899 (*Memoranda*), p. 132.

political economy. Thus Adam Smith pointed out that a rent-tax paid by the tenant will "fall not on one only, but indifferently upon all the three different sources of wealth"—the wages of labour, the profits of stock, the rent of land. Taxes on rent paid, said the father of political economy, are "in every respect of the same nature as a tax upon any other sort of consumable commodities."¹

Mr. (now Viscount) Goschen classed local taxation as an exclusive burden on real property in his report of 1870, but when he was pressed regarding the true incidence of rates, he concurred in the views of the economists. A friend had protested against rates being described as burdens on land and buildings, and Mr. Goschen replied in a letter which is reprinted in his *Reports and Speeches*. He asserted that the words of the report do not really bear the meaning imputed to them. He had only classed rates as burdens on real property "in deference to the general custom of treating rates in this manner."² Mr. Goschen admitted that it was not widely realised that rates could reach general property. "How little this is understood is patent from the fact that men who speak with authority on the subject of rates will in one sentence dilate upon the unfairness of the whole £17,000,000 which is raised by rates (the total at that date) being borne by real property, and in the next sincerely allege that the burden oppresses above all the poor occupiers of houses, and that it is these poor occupiers of houses whom they mainly desire to relieve. They do not seem to see

¹ *Wealth of Nations*, Book v. chap. ii.

² *Loc. cit.* p. 149.

that every shilling that actually comes out of the pockets of occupiers must be deducted from the alleged total borne by real property.”¹

Rates, therefore, as far as they are paid by the occupier, are acknowledged to fall on general property and not on real property. In all countries other than England, it is assumed for practical purposes that occupiers' taxes on rent are paid ultimately, as well as at the time of collection, entirely by the tenant. So ingenious a nation as the French, so scientific a people as the Germans, never dream of treating rent-taxes, local or national, in any other manner. The American economist, Professor Seligman, has also protested against the application of unqualified theories of “incidence.”

The third chapter of this essay is set aside for the discussion of this question. The subject is dry and uninteresting in the extreme, but it is vitally important. It is impossible to come to a single decision in regard to rating until we have definitely made up our minds who pays rates. If we claim relief for some rate-payer, we must know whether it is he who pays rates; if we wish to throw a heavier burden on some other rate-payer, we must be certain that the tax will fall as we intend. Every one knows that all duties on articles of consumption may be diffused to some extent. The theoretical “effects” of, say, the sugar-tax are infinite. So also are those of a rent-tax. In practice we never trouble ourselves about the “effects” of taxes on articles of consumption. We say that the beer-duty, for instance, is paid by the drinker, and think no more about it. We are perfectly

¹ *Loc. cit.* p. 149.

aware that the Chancellor of the Exchequer has always to count on the opposition of brewers if he raises the duty; we know that he earns their gratitude if he lowers it. This fact does not compel us to alter our accepted belief that the tax falls on the drinker. A similar view is taken of a rent-tax in Germany, France, and America. The author will advocate that for the reform of local taxation in England the same theory should be accepted.

In considering various proposals for reform, frequent reference will be made to the institutions of foreign countries, particularly to those of France and Germany. Such comparative treatment has to be applied very carefully, but the method has the sanction of the greatest of English economists, Adam Smith. In the special domain of local taxation one may also appeal to the example set by Mr. Goschen. For the preparation of his report of 1870 Mr. Goschen collected considerable material from foreign sources and obtained very instructive results. There is, it is true, a strict limitation to the usefulness of studies of this kind, and to all research in foreign literature of finance. Nothing new is to be got, for instance, from the numerous foreign descriptions of English rating—these descriptions are quite unoriginal and not always accurate; but accounts of parallel conditions in other countries themselves are in many ways suggestive. The recent experience of Germany is particularly interesting. Only a few years ago a great reconstruction of local taxation was carried out in Prussia. The Act of Reform is a most valuable study in applied science, and probably owing to the obscurity of the language—in the paragraphs of a statute Germans excel themselves

—the measure is practically unknown in England. But many of the conditions of local government are similar in England and Germany, and the measure has been too carefully framed for us to be unable to derive at least some illustrations from the efforts of our neighbours when we approach the question of our own rates. All that is necessary is to make certain that the methods cited as precedents have been adopted abroad under conditions similar to those prevailing in England. The witnesses who, for instance, suggested the German graduated income-tax to the Royal Commission, had neglected to inquire whether our device of “tapping at the source” permits the adoption of a local tax like the German one.¹

A reference to foreign countries is also necessary for the proper estimation of the proposals which have been made for the distribution of subventions by the Chairman of the Royal Commission and by Sir Edward Hamilton and Sir George Murray. These commissioners have put forward plans by which grants in relief of rates would be given on an elaborate scale of graduation. The scheme has struck most people as a new light on the subject of local finance. One of the colleagues of the minority reporters has in his separate recommendations expressly referred to the novelty of the idea.² In the House of Commons the proposal has been enthusiastically described as “a marvel of ingenuity.”³ The leading Quarterly devoted to political economy, the *Economic Journal*, has also complimented the authors

¹ This point is discussed fully in the present writer's article, “Local Taxation in Germany,” in *Economic Journal*, Sept. 1901.

² Final Report, p. 88 (Rt. Hon. C. B. Stuart-Wortley).

³ Debate on Urban Site Rating Bill, 19th February 1902.

on the originality of their proposals and on the ability with which they have conceived them.¹ But in reality there is nothing new whatever about the plan. It is simply copied from Germany or France. This is an important fact to consider in estimating the value of the proposal. As the scheme is a direct foreign importation, its utility depends on whether the purposes which it serves in the countries of its origin are the same as those to which it is to be applied in England. And that is not the case. Subsidies out of central funds are given by our government because of the acknowledged hardships inflicted by our system of rating. We think it impossible to reform local taxation, and therefore we give grants in relief. In Germany and France local taxation is considered to be perfectly equitable. Graduated subsidies are given in these countries for reasons which have no connection with the grievances of individual tax-payers. There is, therefore, not the remotest chance that the foreign system of grants, if transplanted to England under present conditions, would remove the particular evils from which our rates suffer.

The most valuable result of all which is gained from a study of foreign finance is to be able to point out that a comparison of English local taxation with the methods adopted in other countries shows the full enormity of our rates as regards the poor. No other nation subjects its poor to such burdens as we do. Expenditure on house accommodation bears a proportion to total income which grows steadily smaller as one ascends in the scale of wealth. Taking as a basis that the very poorest in towns spend $\frac{1}{3}$ rd of their

¹ Vol. xi. p. 328.

income on rent,¹ and that the very richest spend, say, $\frac{1}{50}$ th, this means — translated into the terms of a direct income-tax—that if rates to the poorest are half-a-crown per £ of their income, the outlay of local authorities is defrayed by the millionaire by an income-tax of a penny three farthings per £. Even France, whose central taxation is very far from being a model of equity—even France does not grind down her poor by local taxation in a manner approaching to the English. In Germany total exemption is given to the very poor from the local rent-tax, where this form of impost exists, or from the direct local income-tax, which is the usual German method of defraying local “national” services.

Great and intricate problems arise in discussing the reform of decentralised finance, and an attempt will be made in this essay to treat these questions in a practical—if possible, in a popular manner. There are many dangers in adopting such a method, but if the result is to make the subject clear to laymen, every purpose of the writer will be served. As a man of business he can only express the hope that he is sufficiently acquainted with scientific theories not to have fallen into any error of principle, although at several points he finds himself at variance with his preceptors, the political economists.

The general division of the subject-matter is the customary one. Part I is devoted to the consideration of national rates; Part II deals with the remainder of local taxation. The conditions prevailing in England

¹ This is the case even in provincial towns, Mr. Rowntree having shown that families earning less than 18s. per week spend over all 29 per cent on rent.

and Wales only are treated, for the Scotch system, by which a part of local taxation is placed on owners of real property, creates a sharp distinction between the two former kingdoms, and unfortunately renders it impossible to treat decentralised finance as a whole.

PART I

RATES FOR DEFRAYING EXPENDITURE ON
MATTERS OF NATIONAL INTEREST

CHAPTER I

THE DEVELOPMENT OF ENGLISH RATES AND TAXES

THE history of taxation may be surveyed from many points of view. We may trace the increasing control acquired by Parliament, as is done by constitutional historians; we may, like Dr. Cunningham, show how taxes came to be regulated with the object of encouraging industry, and how protective and prohibitive duties fell back into imposts for revenue purposes only. At present it is the more or less technical question of the assessment of taxes which claims attention. The various devices which can be employed for forcing individuals to contribute equitably to the expenses of the State are the clues with which the subject will now be briefly investigated. It is true, the unwillingness of people to pay taxes, the lengths they will go in fraud and evasion, the cunning consequently practised by assessors, are not inspiring as leading ideas for an historical survey. The repression of tyranny, the growth of commerce, excite the imagination in a degree which is lacking when our guiding thread is sordid cheaterly on the one hand, and the methods of a criminal detective on the other. But difficulties of assessment have exerted a

profound influence on the development of taxation. There is a short story, which illustrates a principle of finance no less unquestionable in its authority than the famous canons of Adam Smith. The inhabitants of a small town on the Moselle voted their burgo-master a tun of wine, agreeing to contribute a certain measure each. The tun was sent from door to door on a cart, and each burgher poured in his measure with an air of benign solemnity. When the cask was broached, it was found to contain pure water.

The principle of taxation which underlies this simple tale has led to the creation of some of the most elaborate portions of the machinery of modern government. We each of us may have a folio page at Somerset House inscribed with our name and all available particulars concerning our financial position: the names of our parents, the dates of their death, the details of their marriage settlement, our relations' settlements, our friends' settlements,—in fact a *dossier* containing wills, legacies, income-tax returns, and all the rest. Should we attempt fraud, woe to us, if the officials can bring up the *dossier* against us. But the growth of this intricate department does not mark a decadence in national morals. Fraud in the matter of taxes developed at a very early period, only the checks were less elaborate in former days. Under simple conditions of life neighbour could assess neighbour. Taxation was local. We hear, for instance, that the revenue of the Saxon kings was, with consent of the witenagemot, supplemented by taxes about which we know little more than that the shire "was the basis of rating."¹ In early times, if we

¹ Dowell, *History of Taxes and Taxation*, vol. i. p. 8.

leave out of account the duties at the ports, which were originally a mere "premium of insurance" paid to the king for protection on the high seas;¹ if we also disregard the revenue from domain, and from incidents of feudal tenure, which maintained themselves till the times of the Civil Wars;² if, meantime, we disregard all these, we may say that in former days there was nothing but what we should now call Local Taxation. Our centralised machinery for the collection of revenue is a very modern affair. The king's government was once in a position not unlike that of a school-board: it could collect no taxes itself, but requisitioned sums of money by precept from counties, townships, and hundreds, which levied rates rather than taxes.

TAXES BASED ON THE OWNERSHIP OF LAND

The Norman Conquest led to a temporary departure from the system of collecting taxes through the medium of local authorities. It is not necessary to inquire the cause of the change in method; probably the government of the invaders could not rely on receiving adequate assessments. The basis of taxation which the Normans attempted to introduce is that now known among continental nations as a cadastral survey of land—land being, of course, in these days the principal item of national wealth. The taxes were imposed according to hides of land, and the reference to local knowledge became unnecessary as long as the Domesday-Book held good.

¹ Dowell, *History of Taxes and Taxation*, vol. i. p. 75.

² *Ibid.* p. 18.

But this form of impost soon died out. The dane-geld disappeared after 1163. The carucage, levied by the carucate, or plough-land, was last granted in 1224. Two drawbacks attached to these taxes. The assessment, in the first place, was very difficult.¹ A survey is enormously expensive, and requires to be constantly kept up to date. The nations which retain this method of assessment find it exceedingly troublesome. The last French cadastre, for instance, took forty years to complete.² Germany, again, abolished her land-tax in 1893 as far as the central government was concerned,³ partly because the taxation of land-values was handed over to local authorities,⁴ but also because of the unsuitable nature of the tax for national purposes. The second difficulty connected with the old English land-tax was the circumstance that growing national prosperity created other forms of wealth which were not distributed in the same ratio as land.⁵

To secure rough and ready justice in taxation, it is by no means necessary that each individual should be assessed by all the property he possesses. If, for instance, under simple conditions every person of wealth owned land, and if there was a cow to every acre, then cows might be left out of the assessment without disturbing equity.⁶ But in a wealthier com-

¹ Dowell, *op. cit.* vol. i. p. 37.

² Giffen, *Essays in Finance*, First Series, "Taxes on Land."

³ Gesetz wegen Aufhebung direkter Staatssteuern, 1893. Professor Bastable describes the intention of this law as being to abolish the local income-tax. (*Pub. Fin.* p. 379, note 1.) This is a mistake.

⁴ Kommunalabgabengesetz, 1893.

⁵ Dowell, *loc. cit.* p. 37.

⁶ The Domesday survey enumerated cattle and stock, but taxation seems to have been, for obvious reasons, restricted to land. The list of live-stock would soon become antiquated.

munity more complicated taxation is necessary. Classes grow up well able to bear taxation, but possessing no land whatever in the items of their wealth. To remedy this latter defect of the land-tax a complete enumeration of all other articles constituting the property of each individual was undertaken: movables were included in the assessments. These taxes on movables took the shape of fractional grants, which ranged from $\frac{1}{6}$ th to $\frac{1}{30}$ th of capital value.¹ The idea was a foreign one, like many of the innovations introduced into English finance, and was brought from France by Henry II. To this day in that country there is the *contribution foncière*, a tax on the owners of land, and the *contribution mobilière*, on the owners of movables. In England the first of these taxes died out, and was supplanted by the exclusive taxation of movables.

TAXES BASED ON THE OWNERSHIP OF MOVABLES

Originally intended only to supplement the land-tax,² the fractional grants of movables gradually superseded all other forms of taxation. The new impost became the sole tax of the future. "In it became merged the land-tax on the knights' fee, the tallage of royal demesne, and all other forms of direct taxation. It touched all wealth, reaching the land-owner through his cattle, farming stock, corn, and other produce of his lands, and the burgher, or towns-

¹ Thorold Rogers, *History of Agriculture and Prices*, vol. i. p. 157.

² Cunningham, *Growth of English Industry and Commerce: Early and Middle Ages*, pp. 152, 153.

man, through his furniture, money, and stock-in-trade.”¹ The nature of this single tax on movables can best be illustrated by a few extracts from the celebrated Colchester assessment rolls referred to by Professor Thorold Rogers, which were made for levying the fractional grants of 1295 and 1301. Some characteristic entries are these:—

Richard, prior of the church of St Botolph.

Had on Michaelmas Day last past: 10 quarters of wheat at 5/- a qtr.; 12 qtrs. of barley at 4/- a qtr.; 8 qtrs. of oats at 2/- a qtr.; 4 beasts of the plough at 3/- a beast; 4 oxen at half a mark (6/8) an ox; one bull, value 5/-; 6 cows at 5/- a cow; 32 sheep at 8d. a sheep; 7 lambs at 6d. a lamb.

Total Assessment, £10 : 12 : 6.

Edward de Bernholte, the sea-coal dealer.

Had 30 qrs. of sea-coal at 6d. a qtr.; 12½ qtrs. of salt, value 12/-; a brass caldron, value 2/6; a cup of mazer (hard wood), value 3/-; 4 silver spoons at 10 pence a silver spoon, &c., &c.

Total Assessment, £6 : 3 : 4.

Henry Pakeman, the tanner.

Had (with other goods) a mazer cup, a silver buckle, four silver spoons, two table-cloths, two towels,

¹ Dowell, *loc. cit.* p. 59.

and altogether, including movables in house, granary, and larder, bark, skins, and utensils for tanning, &c.

Total Assessment, £9 : 17 : 10.

These were men of substance.

Samen, the carpenter.

Had a tunic, value 2/6 ; an axe, value 2/6.

Total Assessment, £0 : 5 : 0.

William de Tendring, the tailor.

Had an old cloak, value 3/- ; a bed, value 2/6 ; a brass pot, value 1/6 ; a pair of scissors, value three-pence.

Total Assessment, £0 : 7 : 3.

The exclusive assessment of movables is an important innovation in taxation according to the contributor's wealth. It makes no pretence at that completeness of enumeration which is necessary to secure ideal equity. But taxation is essentially a practical problem. If the difficulties in the way of perfection are too great, equity must go to the wall. The assessment of land was found too difficult ; land was therefore allowed, in the modern phrase, to slip out of assessment. It did not, of itself, follow that owners of land escaped too lightly. If there was a cow to every acre, there was nothing wrong in taxing according to cows, and letting acres alone.

But while the fractional grants of movables got over the difficulties connected with the assessment of

land, the improvement in the position of the assessor cannot be better described than by the homely simile: "Out of the frying-pan into the fire." Land may not be easy to assess. The number of hides of land a man possesses may be a most misleading measure of his ability to pay taxes. The nature of the soil, whether plough-land, or marsh, wood-land, or meadow-land, and many other circumstances have to be taken into account. Serious uncertainty may be felt as to the exact contributions exigible from two men owning a thousand acres each; but land, at least, is a kind of property which cannot be hid. Doubts of a very different nature arise as to the equity of the taxes imposed according to the assessed movables of Richard de Bernholte the sea-coal dealer, and Henry Pake-man the tanner. They were taxed, for instance, on four silver spoons each. But who can tell but what Mrs. de Bernholte had a dozen others stowed away somewhere out of sight? In fact, however difficult the assessment of land may be, it is child's play compared with the assessment of movables. The assessment of movables becomes a crucial problem of taxation from this period to the present day.

THE EMPLOYMENT OF LOCAL AUTHORITIES IN THE WORK OF TAXATION

The device adopted by early financiers for securing accuracy was to make the assessment as local as possible. By this expedient, the knowledge possessed by neighbours of each others' affairs was utilised. An approximation to equity could at least be obtained

by this means. Commissioners for assessment were appointed in every county, and the sheriff was enjoined to assist them in the performance of their duty. Every hundred and every parish was required to be separately registered, in order that the commissioners might be able to account for every township by itself.¹ For some time the assessment of movables continued to proceed on these lines. The fractional grants settled down to the recognised amounts of $\frac{1}{10}$ th and $\frac{1}{15}$ th, which became the official designation of the tax. A tenth was levied on towns and tenants of demesne, a fifteenth on counties.² But the assessment was very loose. If we consider that a tenth must have been equal to two years' revenue from the property taxed, at an imaginary return of 5 per cent,—that is to say, equivalent to an income-tax of 40s. per £, we can form some idea of what the proceedings of the assessors must have been like.

Even the semblance of central control disappeared, however, in time. About the commencement of the fourteenth century circumstances arose which made it necessary to resort to drastic measures for filling the coffers of the State. Under this strain the methods adopted so far in the taxation of movables broke down. The expulsion of the Jews had narrowed the king's revenue, foreign wars had increased his expenditure. It became necessary to assess the taxes strictly—*ad unguem*, up to the full.³ Immediately the country began to seethe with discontent. The proceeding was branded as "unusual and unheard of."⁴ Accusations of favouritism and extortion were brought

¹ Dowell, *loc. cit.* p. 63.

³ *Ibid.* vol. i. p. 68.

² *Ibid.* vol. iii. p. 69.

⁴ *Ibid.*

against the commissioners. To appease the tax-payers,—indeed, as the only possible way of getting money,—the government was compelled to adopt an expedient which became the guiding principle of English taxation for centuries.¹ This happened in 1334. The year marks an epoch in our financial history.

A grant of the usual tenth and fifteenth was made in 1334, and in order to avoid oppression and hardship, a power was inserted in the writs issued which amounted to a direction to the commissioners this time to treat with the communities of the cities and boroughs, and the men of the townships and ancient demesne, and all others bound to pay the tax, and settle with them a sum to be paid as a composition for the tenth and fifteenth. This sum fixed by agreement was to be entered in the rolls as the assessment for the particular township.² Instead of approaching individuals, the commissioners treated with the local authorities and requisitioned a definite sum from them. As regards the assessment of individuals, it was the local authority which now taxed the various contributors within its jurisdiction, and collected the sums for making up the quota required by the royal exchequer.³ The basis of assessment was sometimes defined in the writs as being on all movables with certain unimportant exceptions, which varied from time to time; more frequently the direction simply was to impose the tax “in the same manner as the last grant, and not otherwise.”⁴ But whether the incidence of the tax was described in detail, or only by reference, no

¹ Dowell, *loc. cit.* p. 88.

² *Ibid.* vol. i. p. 88.

³ Cunningham, *op. cit.* p. 295; Dowell, *op. cit.* vol. i. p. 86.

⁴ Stubbs, *Const. Hist.* vol. ii. § 282.

steps were taken to secure compliance with statutory instructions. In process of time every particular county, city, and town assessed the amount charged upon it by the method which it found most convenient, till gradually the practice came to be regulated by ancient custom.¹ The central government washed its hands not only of the labour of assessment and collection of taxes, but even of the duty to prescribe the standard of apportionment.

LOCAL RATING

Central taxation for the time being ceased to exist, and local rating took its place. The imposts—to use a general term—for levying the contributions to the national tenths and fifteenths, together with the local taxes proper; the county rate, the township rate, and the hundred rate,—“constituted one complete system of taxation.”² By this means there were raised not only the sums for defraying the various pecuniary burdens placed on the district in a local sense, such as compensations and fines for offences committed, the maintenance of stocks for keeping offenders in holt, the expenses of the lords’ court, and the like, but also the national taxes.³ As far as the central exchequer was concerned, the sum fixed as a composition in lieu of taxation was all it had to concern itself about. A tenth and fifteenth was practically “a fiscal expression” for a grant of about £39,000, that being the total of

¹ Dowell, *op. cit.* vol. i. p. 87; vol. ii. p. 5; vol. iii. p. 70.

² “Poor Law Commissioners’ Report on Local Taxation” (*Parl. Papers*, Session 1843, vol. xx.), p. 6.

³ *Ibid.* p. 5.

the contributions from the various localities. When more than this sum was required, or less, the grant was described as 2 tenths and fifteenths, or $\frac{1}{2}$ -tenth and fifteenth, as the case might be.¹ Professor Thorold Rogers quotes an instance of a tax of $1\frac{1}{2}$ tenth and fifteenth.² "The assessment of the tax-payers and the collection of the tax were left, as a matter of local detail, to the local authorities."³ This arrangement continued as long as the tenths and fifteenths were in use, namely, for three centuries, from 1334 to 1623.

We see, therefore, that from very early times local rates have been imposed for general national purposes. Of any intention to place a peculiar burden on land, we also find that there is no trace. As soon as the accumulation of movable property made the *dane-geld* and *carucage* no longer general taxes, these imposts disappeared, and made way for taxes which were intended to reach every kind of wealth. But before we inquire further into the problem of the development of local taxation, it is desirable to get some illustrations of general financial principles from the better known case of national taxation.

It is a feature of English taxation, which distinguishes our finances from those of all other nations, that we have an entirely separate system of imposts for national, and another for local purposes. Nowhere else do we find this separation.⁴ In England taxation

¹ Dowell, *op. cit.* vol. i. p. 88.

² *Oxford City Documents, Financial and Judicial*, p. 100.

³ *Ibid.* vol. ii. p. 5.

⁴ Compare the admirable account of the systems of taxation in the leading countries in Europe given by Wagner in vol. iii. of his *Finanzwissenschaft*.

has developed in two streams, which, since 1623, have been distinct—one national, the other local. To understand the system of rates, it is necessary to indicate briefly the course taken by taxes imposed by the central authorities.

In course of time the method of supplying the public exchequer by rates decayed; after 1623 it fell away altogether. Taxes again came into existence, and rates, instead of supplying both purposes, came to be levied for the objects of local government only. As regards the new national tax, it was, like its predecessors, intended for an impost on general property, and, as every one knows, it dwindled away till it became a tax on the owners of real property only—the land-tax, which we pay to the present day. This time it was not land, but movable property, which “slipped out of assessment.” It is most important to explain the problem of local taxation, not only by emphasising this process of evasion, but by drawing attention to the alternative expedients resorted to by financiers.

I. CENTRAL TAXES

(a) *The direct Property-Tax*

The history of national taxation for several centuries after the settlement of 1334 is nothing more than the record of a series of attempts to introduce novel forms of direct taxes. All these efforts to depart from the arrangement by which the king's exchequer was provided through the medium of local authorities “invariably ended in failure.”¹ The tallage of

¹ Dowell, *op. cit.* vol. i. p. 127.

groats of 1377,¹ the graduated poll-tax which was tried two years later,² the rough graduated income-tax of 1435,³ proved all equally abortive, and Parliament was forced back to the tenths and fifteenths.⁴ But the yield of the local rate of 1334 began to decline seriously. Decayed towns had to be given deductions, while new, populous places resisted all efforts to extend to them a burden which they regarded as regulated by ancient custom. In 1435 the deductions reduced the tenth and fifteenth to about £35,000, the towns of Andover and Lincoln being entirely exempt.⁵ Thirty years later the grant only brought in £31,000.⁶ It became absolutely necessary to devise a method for supplementing so partial an impost. The government renewed its efforts to impose taxes, and succeeded in establishing a supplementary general property-tax, known as the Subsidy of Tudor times. For long both grants, the old rate and the new tax, were voted together. Thus, to repel the Armada, Elizabeth received from Parliament four tenths and fifteenths, and two subsidies.⁷ The tenths and fifteenths disappeared, however, for national purposes in 1623, as already remarked, and after that date the central government relied on subsidies only.

The development of the subsidies was in many respects similar to that of the old property-tax by means of an assessment of movables. The people succeeded in limiting the grant to a fixed sum, which on average amounted to about £80,000.⁸ The yield,

¹ Dowell, *op. cit.* vol. i. p. 91.

² *Ibid.* p. 95.

³ *Ibid.* p. 113.

⁴ *Ibid.* p. 123.

⁵ *Ibid.* p. 112.

⁶ *Ibid.* p. 120.

⁷ *Ibid.* p. 148.

⁸ *Ibid.* vol. iii. p. 71.

however, began steadily to decline. The country grew in wealth: the domestic architecture of the Tudor period is famous, and there can be no surer sign of national prosperity than this. But in spite of the wonderful expansion which followed the overthrow of Spain, it had to be regretfully recorded that "all else grew save the total of the subsidy roll." So hopeless were the efforts to secure true assessments, that in 1663 the general property-tax was given up as played out.¹ For over thirty years it stood in abeyance. An interesting light is thrown on the position of affairs by some entries which Pepys made about this time in his diary: "With Sir Philip Warwicke to Lord Treasurer's long studying all we could to make the last year swell as high as we could. Lord Treasurer told me he was prepared to convince the Parliament that the subsidys are a most ridiculous tax."² Most ridiculous was really the proper term to apply, and probably no more striking evidence in support of the Lord Treasurer's contention could have been submitted to the legislature than some extracts from the private memoranda of the eminent diarist. In 1660 the subsidy had been levied in the shape of a graduated poll-tax. Pepys entered as follows: "This afternoon there was a couple of men with me with a book in each of their hands, demanding money for poll-money, and I overlooked the book and saw myself set down Samuel Pepys, Gent., 10s. for himself and for his servants 2s., which I did presently pay without any dispute, but I fear I have not escaped so, and therefore I have long ago laid by £10 for them,

¹ Dowell, *op. cit.* vol. ii. p. 30.

² Under date 22nd November 1664.

but I think I am not bound to discover myself.”¹ On another occasion our friend was made to pay £50. “But not more than I expected,” he noted, “nor so much by a great deal as I ought to be, for all my offices. So shall be glad to escape so.” Pepys, as readers of the Diary will remember, prospered in his affairs, and took the most naïve delight in casting up his accounts. In 1667 he made out that his money, as he called it, was £6800. Shortly after this operation he was called upon to appear and be assessed. The meeting was held in the vestry of his church, and Pepys picked up a friend on the way there and found other of his acquaintances dutifully assembled. The tax, he records with regret, was “a great deal,” yet he writes, “it is a shame I should pay no more; that is, that I should not be assessed for my pay as in the victualling business and Tangier; and for my money which of my own accord I had determined to charge myself with £1000 money, till coming to the vestry and seeing nobody of our ablest merchants, as Sir Andrew Rickard, to do it, I thought it not decent for me to do it, nor would it be thought wisdom to do it unnecessarily, but vain glory.”²

The ridiculous general property-tax was adopted again in 1697, with the addition of the old device of fixing not the sum to be raised in all, but of apportioning a definite amount to each county and town.³ The property-tax became in its nature again akin to a local rate, and varied from place to place. But in two respects the subsidies did not resemble the tenths and fifteenths.

¹ 10th December 1660.

² 5th August 1667.

³ Dowell, *op. cit.* vol. ii. p. 49.

The new central tax was not levied on movables only, but was a full direct impost on every kind of wealth. Owners of realty were charged on their realty, owners of personalty on their personalty. A peculiarity of the institutions of England enabled the government to tax land without the continental cadastre. It is true, another survey was made in 1522, the so-called "New Domesday-Book," but a much simpler alternative came into existence with the landlord and tenant system. The income of a landowner in England consists not of the profits of farming, which for technical reasons are indeterminate,—very few farmers attempt to calculate their profits, none can do it accurately,¹—but of the rents received from his tenants. It is not necessary in England to undertake the stupendous labour of a cadastre and tax on "land-value": we have an assessment ready to hand in "annual value." All danger of fraud can, further, be avoided by collecting the tax from the tenant, who deducts the amount when he pays his rent. Land could now be taxed with ease. The new property-tax came to be imposed on owners of land by the measure of their rent-roll; on owners of movables by their movables.

The second respect in which the new tax differed from the tenths and fifteenths was that it was not raised by local authorities, but by special assessors, appointed for the purpose by the legislature. However like a rate the national general property-tax may have been, it never became amalgamated with local

¹ The difficulty is that of "taking stock," which is necessary to determine profit. See *Accountant's Magazine* (Blackwood, Edinburgh), vol. i. p. 562; also *Journal Royal Agricultural Society of England*, vol. xix. Part II. p. 693 *et seq.*

taxation. The tenths and fifteenths subsequent to 1334 were ordered to be imposed "in the ancient manner;"¹ the assessment of the subsidies, on the other hand, was regulated by the most intricate statutory enactments.² With increasing accuracy in parliamentary draftsmanship, the instructions to the assessors gained in precision. Nothing could be more sharply defined than the directions; but as to the practice, nothing could be more loose or equivocal. Every one was a Pepys.

It is not necessary to follow all the details of the decay of the general property-tax, through the monthly assessments of the Commonwealth, down to the time when even in its official designation the tax was described as a "land-tax." Personalty was liable, not only in theory, but in law. Indeed a person reading the statutes, which professed to grant the king "an aid by a *land-tax*," would be led to believe that the burden on land was slight—that under certain circumstances land might not be taxed at all. To all outward appearances the designation "land-tax" was most misleading. The Acts of Parliament ordered the tax to be levied on owners of personalty, and *only to the extent of the deficiency* required to make up the full sum did they impose it on land.³ The persons liable were divided into three classes: (1) Those possessed of personal property; (2) those who held any office or employment of profit. The property by which these two classes were to be taxed was carefully enumerated: "Ready money, debts due, goods, wares,

¹ Dowell, *op. cit.* vol. i. p. 105.

² *Ibid.* p. 151.

³ *Ibid.* vol. iii. p. 84.

merchandise, or other chattels, or any other personal estate in the realm." The government assumed not only honesty in its subjects, but painstaking care. The item "debts due" would have given even a merchant with complete books some trouble to declare. After exhausting the taxable capacity of classes (1) and (2), the assessors were directed to levy *the remainder of the sum* on the third class liable, namely, "the possessors of manors, messuages, lands, and tenements, quarries, mines, tithes, tolls, and all hereditaments of what nature soever they be." This last class could not escape. What happened in regard to the other two is known to every one interested in finance. The minute instructions to levy a direct tax on movable wealth resulted in wholesale evasions. In the year 1832 the contribution from all the "ready money, debts due," etc. from the whole kingdom was the instructive sum of £5000. All the elaborately precise enactments drew from the county of Warwick 16s : 6d.; from the whole of Essex 20s.; from twenty-two counties nothing at all.¹ It was a clear case of *parturiunt montes, nascetur* etc. The ridiculous tax was abandoned in 1833, while the portion falling on land had been stereotyped and made redeemable some years previously.

I. CENTRAL TAXES

(b) *Indirect Taxation*

Having emphasised the difficulties involved in direct assessment, it remains to consider two further

¹ Bourdin, *An Exposition of the Land-tax*, 4th ed. p. 11.

facts: (1) That if any class of society is exclusively taxed, that class will endeavour to bring about an alteration in so iniquitous a state of affairs, if it has the political power to do so. In laying down theories about the development of local taxation this consideration is usually ignored. (2) That if direct methods of taxation fail, indirect methods may be resorted to.

When the danegeld and carucage ceased to be a general property-tax, other forms of imposts were added to the financial system. We shall now see that the same was done when the subsidies decayed till they became a second land-tax. In 1663, as the reader will remember, the subsidies had been given up for about thirty years, leaving the country without a property-tax altogether. They were reintroduced, and about the beginning of the eighteenth century we find that the total tax-revenue of the country was $4\frac{1}{4}$ millions.¹ But of this sum one million only fell to the intended "general property-tax." Half a century later this tax still yielded its one million, while other imposts brought in about five millions.² The new source of revenue which Parliament had discovered was indirect taxation.

Taxes may be broadly divided into two classes: direct and indirect. Various meanings have been attached to these terms, but broadly, direct and indirect may be used in two senses, which depend on whether we regard the problem of taxation from the point of view of the collector of taxes, or of the assessor of taxes.

Looked at from the *collectors'* standpoint, a direct

¹ Dowell, *op. cit.* vol. ii. p. 68.

² *Ibid.* p. 109.

tax is a tax collected from the person who is intended to bear the burden—say the death-duty. An indirect tax is a tax collected from a person who is intended to transfer the burden to some one else—say the beer-duty collected from brewers. One might indeed say that “indirect tax” applied from the collectors’ standpoint is a misleading phrase. Instead of speaking of indirect taxation, one might speak of indirect collection. The most obvious course to pursue, if one wishes to levy a tax on a person, is to call upon that person for a payment. But it is a recognised expedient of financial practice to collect a tax from some one else than the intended tax-payer, if the intended tax-payer is hard to get at. The tax on the consumers of beer is a good example. Such a tax is “indirect” from the point of view of the collector. The distinction cannot be applied consistently. The land-tax, commonly classed as a direct tax, is collected from tenants, not owners. The income-tax, also a so-called direct tax, is, whenever possible, collected from the debtor, or from the industrial company, who make their payments “less tax,” just as brewers make their sales “plus tax.” But direct and indirect, from the collectors’ standpoint, are convenient phrases. The exceptions arising in cases of income-tax and land-tax are mere devices to guard against fraud; they are examples of an expedient known as “tapping at the source.”

Of very much greater importance is the distinction between direct and indirect from the standpoint of the *assessor*, for this aspect of the question is most intimately connected with the difficult problem of apportionment according to ability. Ability to pay

taxes is measured by wealth. We may leave out of account, at present, the problem of progressive taxation, of the exemption of the minimum of subsistence, and similar complications. Roughly speaking, an individual's "ability" is proportionate to his wealth. The problem confronting the assessor, as distinct from the collector, is to find out how much wealth each individual has, in order that taxes may be imposed on him according to his ability. Two methods exist for imposing taxes according to each person's wealth: (1) The wealth may be ascertained, and the tax imposed *on the full sum*; (2) the wealth may be guessed and the tax imposed *according to the criterion* which served as the basis of the guess, the assumption being that such a tax will reach individuals in some rough proportion to their whole wealth. Method (1) is direct assessment; method (2) is indirect assessment.

If the assessor adopts the direct method he approaches the individual, assesses his property, and taxes him accordingly. There are obviously *only two* forms which directly assessed taxes can take: a general property-tax, and a general income-tax.¹ Both these taxes depend very largely on the honesty of the owner of the wealth, and unless checks on fraud can be devised, they fail.² "It has always been found," wrote an old student of finance, "that in matters of revenue, oaths are very little regarded." The two forms of direct taxation exist in the modern English system. (1) The general property-tax takes the shape of a death-duty, which is assessed at a time

¹ Dr. Schäffle (K. K. Minister, a.D.), *Die Steuern*, Allgem. Teil.

² Mill, *Principles of Political Economy*, Book v. chap. v. § 1.

when change of ownership makes evasion less easy ; (2) in the case of the general income-tax we narrow down the opportunities for fraud by "tapping at the source." These devices and the assistance of a numerous Civil Service enable the central government to raise considerable sums by taxes which are assessed on individuals directly by the standard of their wealth—namely, their property or their income. But direct assessment is full of difficulty, and each defect of technical detail destroys the equity of such taxes and makes it necessary to keep them low. The death-duty is evaded by gifts *inter vivos*, which it would be difficult to make illegal, because the law would be ineffective. The income-tax was not commended but only tolerated by Mr. Gladstone, who in his election address of 1874 offered to repeal the tax.

The second method of assessment is the indirect. This mode of assessment consists in openly evading the chief difficulties of the problem and proceeding by guess-work. It avoids the danger of fraud, because it makes no effort to seek out the property of the taxpayer ; it courts the danger of inaccuracy, because it takes the risk of a wrong guess. The problem of indirect assessment is essentially different from that of direct. In direct assessment the *assessor* must guard himself against dishonesty ; in indirect assessment the *tax-payer* must protect himself against possible injustice. Both these dangers may appear combined, but the risk of fraud will predominate in direct assessment, while the method of guess-work must always be open to the objection of imperfect equity.¹

¹ The idea of indirect assessment, in the extended sense used above, was suggested to the present writer while reading a treatise

The modes of indirect assessment are infinitely various. The tenths and fifteenths were partly of this nature. These imposts were imposed exclusively on movables, but that did not imply that they were an exclusive burden on movables. As regards the owners of personalty, they were directly assessed; to owners of realty the tax was indirect: these persons' wealth was guessed to be measured by their movables, their cows, sheep, corn, etc. To assess indirectly you need not take a person's whole property, but only a part: land without movables—movables without land. But usually the criterion is simpler, for the object is to make the work of assessment easy. Social rank has been adopted as an indirect measure of ability. Thus for the graduated poll-tax of 1641 every duke was made to pay £100, every marquess £80, every earl £60, every viscount and baron £40, every esquire £10, etc.¹ Of all devices, however, there is one which represents the survival of the fittest,

by Schäffle, who is not only an eminent economist, but was once a practical politician of cabinet rank. The distinction made in this essay is to regard *every* tax as indirect which is not based on an actual assessment of the wealth of the contributor. The methods of direct assessment being exhausted by income-tax and death-duty, which are the only forms direct assessment can take, *all other* taxes must be indirect. This is a more extreme position than that taken up by Schäffle, who confines the term indirect assessment to taxes which deliberately aim at estimating the contributor's ability (equivalent, perhaps, to Pitt's Assessed Taxes, see Dowell, *loc. cit.* vol. ii, p. 188). For extending the term *assessment* to customs- and excise-duties, etc., there is not only the justification that such a course leads to the interesting result of showing how in direct assessment the chief danger lies in fraud, while in indirect assessment the chief danger lies in inequity, but also that in England our politicians actually believe that a system of taxation which relies as largely as ours does on spirit- and beer-duties, can be classed as a system based on "the principle of ability," viz. a system consciously aiming at equity.

¹ Dowell, *op. cit.* vol. i. p. 161.

and that is to tax according to some kind of expenditure.¹

The keeping of carriages, men-servants, guns, dogs, etc., are the most familiar modern instances of this kind of basis for indirect assessment. But the yield derived from such imposts is never great, because the expenditure in question is confined to a limited number of persons. To be the basis of a productive tax, the expenditure must be common to all, and the ideal criterion for indirect assessment is unquestionably house-rent. This criterion is not only universally applicable, but it bears some rough proportion to ability as measured directly by wealth. A house-tax was described by Mill as "a nearer approach to a fair income-tax than a direct assessment of income can easily be."² In the national system this tax exists in the shape of the inhabited-house-duty.

But while the ideal to aim at is to make the indirect measure as near a guess at income as possible, other considerations may intervene and induce governments to adopt criteria which, taken by themselves, are not equitable, but which form the basis of a highly productive tax. If to the attribute of universality there can be added the device of tapping at the source,³ then it is indeed astonishing what sums can be

¹ Survival of the fittest among devices for raising money. As a method for distributing taxation equitably, which is a very different thing, taxation according to expenditure is far from being "the fittest." Professor Seligman says: "Of all bases of taxation expenditure is undoubtedly the least equitable" (*Incidence of Taxation*, p. 221).

² *Principles of Political Economy*, Book v. chap. iii. § 6.

³ The present writer departs from accepted practice in using the phrase "tapping at the source" in this connection, but he believes it justifiable to employ the phrase in all cases where a financier collects an impost from a person other than the intended tax-payer in the

raised by indirect assessment. We see this in the case of the taxes on tea, sugar, corn, tobacco, and alcoholic liquors. The consumption of these articles is enormous, and by collecting the taxes at the source,—that is, from the dealers, or producers,—the tax-payer is hardly aware that he is being mulcted—certainly not aware that he is being assessed on his wealth. The beggar who chews a quid as he sweeps a crossing contributes cheerfully to the unseen exciseman, while the visible approach of an assessor would make him shrivel up into the standing example of abject poverty.

Utterly failing in their efforts to make the general property-tax productive, the central government had recourse to indirect assessment. A few figures will illustrate the position of affairs. The sources of public revenue in 1739 were, roughly,¹—

“Land-tax” at 2s. per £	£1,000,000
Window-tax	135,000
Stamp-duties	150,000
Customs and excise	4,400,000

Still more interesting are the figures for 1792. The wars of the second half of the eighteenth century sent up taxation by leaps and bounds. The proportions of increase shown in various branches are full of significance : ²—

“Land-tax” at 4s. per £	£2,000,000
Property sold by auction	75,000
Property insured against fire	185,000

expectation that a transfer of the tax will be made to the latter in the course of business.

¹ Dowell, *op. cit.* vol. ii. p. 109.

² *Ibid.* p. 206.

Houses and establishments (servants, etc.)	1,300,000
Post-horses, carriages, etc.	277,000
Stamp-duties	812,000
Customs and excise	12,200,000

These figures prove better than anything else the utter inadequacy of direct assessment, unless coupled with elaborate checks. Pitt's famous appeal to the patriotism of the nation failed completely. The income-tax, which was introduced as the successor of the "land-tax," was most unpopular. When the war was over, it was immediately repealed.

II. LOCAL RATES

With these facts before us regarding the manner in which the problem of assessment has been solved in national taxation, we may proceed to investigate the case of local rates. These rates, as has already been remarked, were at one time in no way distinguished from national taxes. The king's aids were imposed by the same authorities and in the same manner as the old customary levies for local services: both "constituted one complete system of taxation." In name, even, the two were designated by the same term. Thus in the town records of Ipswich the following entries occur:—13th October 1452: "Every burgess of this town shall pay $\frac{1}{4}$ of a fifteenth for certain affairs of this town." 7th January 1455: "Every burgess of this town shall pay one-half of a quinzieme towards the suits between this town and the town of Bury." 30th May 1488: "An assessment shall be made for a tenth and fifteenth for the

king," etc. etc.¹ Many other instances might be quoted. At Leicester the rates or taxes are without distinction described as "tallages"—later as "benevolences."² Local rates and national taxes were interchangeable terms. As regards assessment, the old local rates proper were completely unfettered by statute. No laws to regulate the subject existed. Custom was the only guide.³ The national "additions" were so far controlled by the legislature as to make it generally understood that they were to be imposed according to general property, assessed by means of an enumeration of movables. But no minute directions were given, and with such general regulations as there might be, no conformity was insisted on. The result was, that the method which created so much discontent and led to the arrangement of 1334 was abandoned.

Nothing can seem more natural, if we recall the details of the assessments in Colchester, with their lists of silver buckles, spoons, cups, old cloaks, and scissors. Under such conditions of taxation it was small wonder that men sometimes offered bakshish. The mayor of Cambridge in 1304 was induced to accept one shilling and threepence in this manner. A rate-payer of Leatherhead oiled the palm of the assessor with four shillings in 1313. At Basingstoke a persecuted individual even went the length of nine and tenpence.⁴ More numerous than the records of bribery are the traces of violent discontent among the people. For instance, at Leicester:—

16th April 1311.—John Black charged that he

¹ Quoted from Cannan, *Hist. Local Rates in England*, p. 18.

² *Records of the Borough of Leicester*, vols. i. and ii.

³ "Poor Law Commissioners' Report on Local Taxation," p. 5.

⁴ Thorold Rogers, *Hist. Agriculture and Prices*, vol. i. p. 157.

abused the collectors of tallage with malignant words, who came and could not deny.¹

5th November 1305.—Roger, the porter, charged that in full court he abused the jury assessing tallage, calling them per-jurors.²

24th February 1318.—Christiana, the mustard-maker, charged before the mayor and community that she abused the assessors and vilified them with the vilest words in the High Street, before the people, to the damage and shame of the whole community (*ad dampnum et pudorem totius communitatis*); she came and confessed.³

But while intense dissatisfaction existed among tax-payers, still graver objections must have arisen in the minds of the borough authorities. From their point of view the assessment of movables must have been thoroughly unsatisfactory. Apart from the trouble, which was appalling, the authorities must have been impressed with the ease of concealment and evasion. They had to raise money for their own purposes and a fixed tax for the king, and they must have regarded such persons as Edward de Bernholte, with his solitary cup, his four spoons and single cauldron, in which his lady professed to do all the cooking, with considerable suspicion. In spite of his oath to the contrary, had he not a single knife in the house? And as regards William Tendring, the tailor, how could they be sure that he was really such a poor man as he made himself out to be?

A general property-tax, by means of actual enumeration of all movables, was a most unsatisfactory, and

¹ *Records, Borough of Leicester*, vol. i. p. 271.

² *Ibid.* p. 251.

³ *Ibid.* p. 309.

indeed impracticable, method of raising revenue. What the central government did was simply to allow personalty to "slip out of assessment," and to impose other taxes instead. That may have been all very well for a national financier, but to local authorities such a solution was out of the question. When the central subsidies were thrown up in disgust, a variety of expedients could be resorted to, which are excluded under the conditions of local government. We reserve the French nostrum of taxing articles of consumption for the national exchequer; octroi-duties have never been prevalent in England.¹

The problem to be solved by the counties, towns, and parishes was the same as that which confronted the central authorities—namely, to draw contributions from general wealth; but the point of difference was this, that the local authorities had to attain their object by means of one single tax. The quota which these authorities furnished to the royal exchequer were ordered to be imposed on movables only, and not on real property at all. Had movables been allowed to evade the assessor, the local authorities would have been left without revenue altogether. We know, it is true, that they were allowed to assess as they liked; but it is perfectly certain that they would not evolve an impost which threw an exclusive burden on real property. The owners of this kind of property were a powerful class, both in Parliament and in country districts, and history shows that they had their full share of the

¹ In Scotland local "custom duties" were introduced and came to be known after the Union as petty customs, as distinct from the great or national customs.

general unwillingness to pay taxes. We traced their influence on national finance. As soon as movable wealth emerged and created a class of untaxed persons, the old land-taxes were abandoned. When the central subsidies developed into another land-tax, new imposts were again invented in the shape of customs and excise duties, to make the general community bear a share of the public burdens. Is it reasonable to suppose that during the period after 1334, when self-governing authorities had unfettered control of the taxation of the kingdom, they would invent an expedient which heavily mulcted the governing class, and let the less influential go scot-free? It would be an exception to all historical experience if such a thing had happened.

What in reality took place was, that the direct enumeration of wealth ceased, and that indirect assessment was substituted. Already, as regards the owners of real property, the rates were imposed indirectly—namely, through movables (cows, pigs, corn, etc.), and the idea was carried further. Outward criteria which indicated style of living came to be carefully chronicled in the assessment rolls. Many were the expedients resorted to. So far were things carried at one time, that in an old play one of the characters is made to complain of the all-pervading presence of the assessors and say: “I may tell you that he that hath a cup of red wine to his oysters was hoisted into the subsidy book.”¹ The only possible method was to “guess” ability. Neither the enumeration of articles of wealth, checked by domiciliary visits, nor the oaths of the tax-payers, could be

¹ Dowell, *op. cit.* vol. ii. p. 5.

regarded as satisfactory; and so great is the danger of fraud that even the indirect criterion has to be carefully chosen. One would have imagined that the old hearth-tax, the assessors of which were nicknamed "chimney-men," left no loopholes for escape. Yet it was not so, if the following rhyme speaks the truth:—

The good of dames, whenever they
The chimney-men espied,
Unto their roofs they haste away,
Their pots and pipkins hide.¹

Fraud, perjury, and every kind of lie are only regarded as signs of cleverness. Had Athene been the goddess of tax-payers, no doubt she would have complimented the good old dames with the same flattery as she bestowed on Odysseus on a well-known occasion:—

κερδαλέος κ' εἶη καὶ ἐπίκλοπος, ὅς σε παρέλθοι
ἐν πάντεσσι δόλοισι.²

Only one thing the owners of wealth will rarely do, and that is to refrain from spending. If assessment according to expenditure is adopted, no one escapes except the miser.³ Local authorities, left to themselves and unhampered by regulations, developed their single tax into an assessment on expenditure, and thus unfailingly caught personalty and realty

¹ Dowell, *op. cit.* vol. ii. p. 38.

² Odyssey, N 291:—

The blue-eyed goddess smiled,
Pallas herself, and soothed him with her hand
And thus addressed him with these winged words:
"Cunning and wily must he be indeed
Who thee would overreach in artifice."

Schomberg's Translation, Book xiii. vv. 368-375.

³ Mill, *Principles of Political Economy*, Book v. chap. vi.

alike. Among all indications of wealth given by style of living none is more universally applicable than the outlay incurred for the rent of land and buildings. We find rent gradually entering into the assessment rolls as a recognised criterion of taxable capacity.

An assessment based on this expenditure is a totally different species of impost from a tax on real property levied from the owner. It is an income-tax, and, as Mill thought, a more equitable one than any direct assessment of income can easily be. A rent-tax is indirect in the sense that the measure of ability to pay is not ascertained by an actual enumeration of the tax-payers' possessions, but by a guess. It is the occupier who is taxed; he is made to pay according to his consumption of a certain kind of property, but the impost is no more a tax "on" real property than a carriage license is a tax "on" the wood, iron, and leather which make up the vehicle. The direct general property-tax in the hands of the central government lumbered on in the shape of a land-tax, causing intense dissatisfaction and producing about a million. Local rates, on the other hand, have flourished even as a single tax, because, being indirect, they unfailingly reach the general property of the country. Inaccuracy and inequity to individuals may arise, because the basis is a mere guess at ability, but fraud is excluded: nothing can slip out of assessment.

It was naturally not all at once, nor in any uniform way, that expenditure on rent became the criterion of tax-bearing capacity. Not till the year 1836—five centuries after the arrangement of 1334—did Parliament come to the assistance of local authorities and introduce the well-known Act:

Whereas it is desirable to establish one uniform mode of rating . . . throughout England and Wales.¹ Local custom was the only law recognised. Poll-taxes were for a time not uncommon.² And although these taxes do not appear to have established themselves widely in local usage,—in the hands of the central government we know that they were a complete failure,³—still a tax little better than a poll-tax was sometimes used. Thus at Leicester a tallage—another name for decimation—was levied in 1354, and out of about 400 entries on the roll, no less than 129 are for the uniform sum of threepence.⁴ In another instance half the entries are for sixpence. No one examining these assessments can assume that they are made up on the statutory basis—namely, by enumeration of movables. They are evidently nothing more than a rough guess. Other towns went to the opposite extreme of making the most elaborate estimates of the property of the taxpayers, but estimates, not enumerations. Even after the judicial interpretation of the Act of Elizabeth had fixed local customs and introduced a certain uniformity, there were cases where old usages were stubbornly adhered to down to quite recent times. The parish of St. Mary, Whitechapel, kept a system of local taxation in force till 1823 which was entirely its own.⁵ In Scotland, even in 1880, the important town of Greenock still made desperate attempts to form closer

¹ 6th and 7th Will. IV. cap. 76 (1836). Even this remarkable Act only provided for the poor-rate, and did not touch the method of assessing for other rates.

² Cannan, *op. cit.* p. 17.

³ Thorold Rogers, *Oxford City Documents*, Financial and Judicial.

⁴ *Op. cit.* vol. ii. p. 93.

⁵ Cannan, *op. cit.* p. 79.

estimates than could be expected from the uniform rate per pound on rent.¹

As instances of how indirect assessment prevents fraud, it is interesting to note that the records of bribery belong to the period prior to 1334; also that at Leicester there is a remarkable falling off in the charges against rate-payers for abusing the taxing officers. Only one single case is reported after the rating arrangement had come into force, while before that date the charges were numerous. That the methods which produced contentment were infinitely various we know, but there are signs that the criterion of rent came to be very widely adapted. In 1455 a list of the rents of all houses in Gloucester was prepared "to facilitate" the imposition of taxes.² In 1587 the foreigners in London were made contributory to a fifteenth "by the rates of their houses."³ The most valuable evidence regarding the assessment of rates exists, however, in connection with the old kirk-sceat, the church-rate. The methods of its imposition have been the subject of much controversy, raised frequently by religious objectors, and accounts of local usage have been handed down to us in a much more accurate manner than is the case with other rates. In fact, the law courts have been lavish of prohibitions to prevent the establishment of any new doctrine, or the extension or modification of any old, which threatened to disturb the usage in assessment.⁴

A very careful examination into these customary

¹ Royal Commission on Local Taxation, vol. iii., Q. 14292 *et seq.*

² *Rental of all the Houses in Gloucester, 1455*, edited by W. H. Stevenson, 1890.

³ Cannan, *op. cit.* p. 23.

⁴ "Poor Law Commissioners' Reports," *loc. cit.* p. 10.

methods was made in 1680, and it was ascertained that two modes of procedure were prevalent. The contributor's "ability might be estimated either by his goods, or by the value of the holding he occupies."¹ In 1713 it was, however, declared to be "general usage" to apportion the rate according to the annual value of real property occupied.² It is also in connection with the church-rate that Jeffrey's case arose, and great as is the part played by legal decisions in the development of local taxation, none can, in importance, be compared with this judgment, delivered in the Court of Queen's Bench in 1589. It is necessary to deal in some detail with the points which were at issue. An individual described as William Jeffrey, Gent., resided in the parish of Chiddingley, but owned lands in the parish of Hailesham, some of which lands he let to tenants, while others he retained in his own hands. The church of Hailesham required to be repaired, and the parishioners attended a meeting at which an assessment was imposed for this purpose. Jeffrey was rated on the whole of his estate in the parish, viz. on 30 acres of marsh, and 100 acres of land which he "had and occupied" in the parish. He appealed, and lost his case.³ The question was then carried before the Court of Queen's Bench. "After many arguments at bar and bench," as the reporter says,⁴ "it was adjudged that a consultation should be granted." The result was as follows: Jeffrey had, in the first place, maintained that to rate

¹ Cannan, *op. cit.* p. 105.

² *Ibid.*

³ Coke's *Reports* (new ed. 1826), vol. iii. Jeffrey's case (Court of Common Pleas).

⁴ *Ibid.* (Court of King's Bench).

him on the lands he let to tenants was "against law and reason, and against the common experience of all England." This plea was upheld. The judges decided that "the lessor who receives rent for these (lands) shall not be charged for them in respect of his rent." In other words, owners of property shall not be rated directly on the income from their property. This decision shows how clearly the difference between a land-tax and a local rate was recognised by the Court. "The charge is on the person, not on the land, but on the person in respect of the land, for the more equality and indifferency." Not rent received, but rent paid was the criterion, or, in the case of an occupying owner, the value of his occupation. Jeffrey's second argument was, that a person living at Chiddingley was not a parishioner of Hailesham, and this was not upheld, the Court ordering him to pay in respect of the lands he occupied himself. But the full significance of the remainder of this important case cannot be discussed till next chapter. At the present point sufficient has been quoted to afford a further insight into the local custom of indirect taxation according to occupier's rent. Coke did right to close his report with the remark: "Note, reader, this is a good case to many purposes, and therefore observe well the consequences of it."

The assessment of occupiers, then, on the annual value of their "consumption" of real property is not the surviving remnant of a direct tax on general property, but rather the foundation of a complete impost on the entire wealth of each individual. As between class and class inequalities no doubt existed. Agricultural landlords, for instance, however

large their occupation might be in the way of house, garden, park, etc., paid on a very much smaller share of their income than their tenants, the farmers. But between the members of each class the system worked incomparably better than the enumeration of movables. While England was an agricultural community the rent-tax must have been as perfect as our modern general income-tax. With all our elaborate machinery for the assessment of this tax, we can to this day devise no better standard, and must assess farmers to the central income-tax on the rent they pay. It is almost impossible for a farmer to determine his profits, as is done in other industries. He usually does not know his income himself, and cannot give a declaration. A tax on rent is the only income-tax that can be devised among agriculturalists. It is the diversity of conditions which arises in a modern community which makes rent a questionable measure of tax-bearing capacity. The burghers of Colchester would have had few of the grievances of their descendants to-day had they been rated on rent. While discussing their assessment of movables, Mr. Dowell pointed out that even in such an important town, the centre of the tanning trade, the inhabitants were more like farmers than burghers. "The most striking features presented by the schedule are the paucity of stock-in-trade and goods, the scarcity of valuables and household furniture, the insignificant total of the vast majority of the assessments, and the preponderance of animals, beasts of the plough, cows, sheep, pigs, and corn over movables of other descriptions. It has the appearance of a rural rather than that of an urban roll." The introduction of an assessment according to rent must

have been eminently satisfactory under these conditions.

Long before the Act of Elizabeth was taken into the statute-book local taxation had begun to settle down into the system which we know to-day. Rent may not invariably have been the standard: the lover of oysters may sometimes have considered it desirable, for his pockets' sake, to deny himself the accompaniment of red wine; but direct assessment was abandoned. The statutory instruction to local authorities had been to enumerate all movables, and this was, without exception, the least serviceable mode of assessment that could have been devised; it was troublesome to the assessor, unendurable to the assessed. The regulations came to be enforced later in the case of the central subsidies granted to the king, but local authorities were left free to act as they liked. They assessed, therefore, after a method which, we shall see, afterwards became statutory: "according to their good discretions." Direct assessment ceased, and an indirect guess at ability took its place.

CHAPTER II

THE POOR-RATE AND ITS INFLUENCE ON LOCAL TAXATION

IN the year 1535, under the conditions of local and national taxation described in the previous chapter, the dissolution of the monasteries commenced, and rendered it necessary to make provision for the maintenance of the poor persons who had hitherto been relieved through the medium of the religious orders. The property of the religious houses, churches, hospitals, and cathedrals had largely been destined to the purpose of poor-relief by the bequests of many generations of pious donors. When this property was confiscated, it would have been equitable to have charged it with the expense of the charitable purpose it had served. A calculation has been made that the share of the booty falling to the government coffers was alone worth £1,600,000 a year, which was equal to more than twice the total cost of poor-relief even two centuries later.¹ Instead it was decided to raise the money by general contributions.

An entirely new class of expenditure had thus to

¹ "Poor Law Commissioners' Report on Local Taxation," p. 12.

be provided for—an expenditure which, in every sense of the word, was national. Not only is the preservation of the life and health of the needy an interest of the community at large, but the special cause which in 1535 converted the charge into a public burden was an act of government. To provide the revenue for this new purpose would in any case have been difficult; under the circumstances the proceeding might have been considered impossible. The jealousy with which the country regarded any increase in the burden of taxation could only be accentuated by the nature of the event, which caused the expense to be cast upon the public. The solution of the problem must be considered a remarkable achievement in politics.

For several reasons the burden was made what we now call a "local charge." It was rightly recognised that the administration of poor-relief must always be conducted in the domain of local government. The local authorities were also the only available agents for raising money. But the form of tax was a more difficult matter to decide. To a legislature which had systematically refrained from interfering with the basis of local taxation, a decision must have been very difficult at this crisis. The basis of the tenths and fifteenths was not available. The yield of this tax was fixed by ancient custom, and newly arisen, populous places resolutely refused to increase their share. The device was for national purposes definitely abandoned in 1623. The subsidies which had come into prominence about this time were not a success. In their case also the grant was settling down to a fixed sum.

I

A new tax had to be devised. Skilfully employing the religious enthusiasm which had enabled them to confiscate ecclesiastical property, the government gave the strongest possible moral colour to the new impost. It had been customary to collect offerings in local areas for the relief of those poor persons who did not find support in the profuse but ill-regulated bounty of the monasteries.¹ Eagerly this precedent was seized. In 1536, the year after the suppression of the smaller monasteries,² the legislature provided for the consequences of its depredations by organising what one may describe as a scheme of statutory benevolence. A law, the 27th Henry VIII. cap. 25, was passed, ordering that the relief of the poor should be provided for by public alms—not casual acts of charity, but regulated, systematic largess, ordered and collected in accordance with the sections of an Act of Parliament. The statute instructed the head-officers of shires, cities, towns, hundreds, hamlets, and parishes to take discreet and convenient order for gathering and procuring charitable and voluntary alms of the good Christian people within their divisions. Every preacher, parson, vicar, and curate, as well in their sermons, collections, bidding of beads as in time of confession and making of wills, was ordered to exhort, stir, move, and provoke people to be liberal. Two things might have tended to reduce the statutory benevolence fund: independent charity and

¹ Sir George Nichols, *Hist. Eng. Poor Law*, vol. i. chap. iii.

² "Poor Law Commissioners' Report on Local Taxation."

independent beggars. These were carefully guarded against. All indiscriminate indulgence of benevolent inclinations, all "unknown deeds of kindness and of love," were strictly prohibited. It was enacted that no person shall make any open or common dole, nor shall give any money in alms, but to the common boxes and gatherings on pain to forfeit ten times as much as shall be given. Trustees, or public bodies administering charitable bequests, were also ordered to pay their funds into the common box. Sir George Nichols observes, in his *History of the English Poor Law*, that these provisions were "a great stretch of legislative power," but, he adds, sufficient funds would not have otherwise been forthcoming.¹ As regards the second danger, the independent beggar, he was to be flogged when first caught; next time to have the upper part of the gristle of the right ear cut off, "so as it may appear for a perpetual token that he hath been a contemner of the good order of the common wealth." For the third offence he was to suffer death as a felon.

By these somewhat drastic devices the government succeeded in overcoming the difficulties in which it found itself involved. The "enumeration of wealth" principle, as used in the general property-tax, had proved itself a failure. Here we have another development: the "declaration of wealth" principle is adopted. For the State to call for alms in fulfilment of a moral obligation, is just another way of calling for declarations in order that a tax may be imposed accordingly. Given in the one case honesty, in the other enthusiasm, the tax, "according to ability,"

¹ *Op. cit.* vol. i. p. 123.

ought to be perfect. The new poor-rate, it is true, was expressly declared to be voluntary: "no one shall be constrained, but only as their free wills and charities shall extend." This proviso, however, was due to the circumstances under which the new charge arose.

A somewhat similar method of raising revenue had been employed in England at the time of the Crusades. The Saladin tithe was a tax based on a declaration of wealth, combined with an appeal to moral duty, and aided by ecclesiastical supervision. Boxes were placed in the churches, into which the contributors were required to drop a fixed proportion of the value of all their goods and of the debts they were certain of being paid. An oath was required that the summation of items had been correctly performed, and the penalty for fraud and concealment was excommunication.¹ But just as the attempt to enumerate movables ended in failure, and just as the Saladin tithe method turned out unsuccessful in securing the levies expected from it, so the statutory benevolence scheme had in its turn to be superseded. The intention was excellent, but the advisers of Henry VIII. failed to make sufficient allowance for the weakness of human nature.

Very gradually and carefully the impost had to be converted into an ordinary tax. After the Act of 1536 had been in force for fifteen years, the first cautious step in this direction was taken: a slight modification was introduced into the expressly voluntary nature of the contribution. A law was passed which enjoined the collectors for the poor, "when the

¹ Dowell, *op. cit.* vol. i. p. 59.

people is at church, and hath heard God's holy word," to go up to the congregation, and "gently ask every man and woman what they of their charity will give weekly to the relief of the poor, to write the same in a book, and to distribute what they collect to the poor and impotent. If any one able to further this charitable work do obstinately and frowardly refuse to give, or do discourage others, the minister and churchwardens are gently to exhort him; and if he will not be so persuaded, the bishop is to send for him, and persuade him by charitable ways and means, and so, according to his discretion, take order for the reformation thereof."¹

All this accumulation of gentle persuasion, backed in the last resort by the undefined discretion of the bishop for the reformation of defective charity, failed to stir and provoke the people to contribute a sufficiency of voluntary alms. An Act of 1563 took a step further on the road to taxation by introducing the civil power into the working of the benevolence scheme, but still only as an alternative to voluntary alms, and as the very last resort against the obstinacy of recusants. It enacts that if any person of his froward, wilful mind shall obstinately refuse to give weekly to the relief of the poor, according to his ability, the bishop shall bind him to appear at the next sessions; and at the said sessions the justices there shall charitably and gently persuade and move the said obstinate person to extend his charity towards the poor of the parish where he dwelleth; and if he will not be persuaded, the justices, with the churchwardens, may tax him according to their

¹ "Poor Law Commissioners' Report on Local Taxation," p. 12.

good discretions; and if he still refuse, the justices, on complaint of the churchwardens, shall commit the obstinate person to goal, until he pay the sum so taxed, with the arrears.¹

This Act of 1563, the first statute which makes provision for compulsion by the State, is a most important enactment. Two points are made clear: firstly, that persons are supposed to contribute "according to their ability;" secondly, that the justices, with assistance from the churchwardens, are to tax "according to their good discretion." No attempt is made to define the basis of contribution: the "declaration of wealth" principle is given up, in the same way as the "enumeration" principle was abandoned. The local authorities are to "guess" what a man's ability is.

The aid derived from ecclesiastical pressure was relinquished in 1572. Alms are still called for, but to make up the deficiency the justices are directed "by their good discretions to tax and assess the inhabitants within the several divisions to such weekly charge as they and every one of them shall weekly contribute." If any person obstinately refuse, he is to be brought before the justices to abide their order, or to be committed to gaol until he shall be contented with their order, and do perform the same.² We find here a trace of the phraseology afterwards met with in the celebrated 1601 Act. The tax is to be levied from *the inhabitants dwelling within the several divisions*. This clause brings us face to face with the cardinal defects of local taxation, which must, under all circum-

¹ "Poor Law Commissioners' Report on Local Taxation," p. 12.

² *Ibid.*

stances, affect the subject to its foundations ; they constitute indeed the great difficulties to this day.

For administrative reasons local areas are restricted in size ; their smallness is, in fact, their only *raison d'être*. From this fact flow two things : (1) that owing to the irregularities in the distribution of wealth over the country, some of these small areas must be poorer than others ; (2) that persons may be held to belong to more than one local area. These are the two peculiarities which differentiate local from national taxation. In national taxation we do not concern ourselves with the comparative poverty or wealth of localities : we take the country as a whole. For purposes of local government, however, the country is divided into small districts. When the administration of national services is delegated to these districts, the two complications arise to which attention has just been drawn. This problem had, at once, to be faced.

The first difficulty—namely, the poverty of some parishes and the wealth of others—was settled in this manner. The Act of 1572 gave permission that if any parish or town were unable to provide for the relief of its poor, and it were over-great a burden, then, where collections of money cannot presently be had, justices in Sessions might license some of the poor to ask and gather alms within any other town, parish, or parishes of the county. This device had previously existed in local custom,¹ and was an excellent remedy as long as the law of statutory benevolence was in force.

The second difficulty arose in connection with the

¹ Nichols, *Hist. Eng. Poor Law*, vol. i. chap. iii.

definition of "inhabitant." Who belonged to a parish? The statute gave no guidance in this matter, but the same point had arisen in connection with the other local rates,¹ which the self-governing authorities were developing as best they could. We may now complete the consideration of Jeffrey's case. The reader will remember that Jeffrey resided in one parish while he owned lands in another, some of which lands he let, while others he retained in his own hands. He was rated for the repair of the church on his whole property in the parish where he did not reside, and against this he urged two objections. Firstly, that to rate him on the lands he let was "against law and reason, and against the common experience of all England." On this point he was successful. Secondly, he pleaded that he was not a parishioner at all, because he resided in another parish. The judges had, of course, no law for their guidance, and they had a most difficult point to settle. One can well imagine that there were "many arguments at bar and bench," and that at last a consultation had to be granted. As far as Coke's report goes, the case was decided chiefly on arguments drawn from common sense. If, it was contended, a person was only to be rated in the parish where he resided, then it might happen that a man occupied the greater part of the land and was not ratable because he lived somewhere

¹ It must be obvious that the first difficulty mentioned, viz. the comparative poverty of some localities, would create complications for the first time under the poor-rate. Rates for purposes of purely local interest do not raise difficulties of this kind at all, and the rates to furnish the king's aids were practically in the same position, because the quotum assessed on each locality was itself determined by the wealth or poverty of the community.

else, "so churches in these days will come to ruin." The Court therefore laid down the law that "the place where he lies, sleeps, and eats doth not make him a parishioner only, but also forasmuch as he manures lands in Hailesham, and by that is resident upon it, that makes him a parishioner of Hailesham." Jeffrey's case is thus not only important because it shows that rates were not regarded as a tax on real property—"that the charge is not on the land but on the person," but also because it decides the vexed question of who should be held to "belong" to a local area. The term "every inhabitant," as used in the Poor-rate Act of 1572, is a universal description in the case of a nation only. In local affairs "every inhabitant" has to be amplified by "and every occupier." The rent-paid test—or the equivalent thereto, in the case of an occupying owner—offered a convenient solution of the problem of local taxation, not only because it gave a basis for guessing ability, but because it enabled the local authority to tax non-residents. The farmer, whose holding extended into the parish boundaries, while the farmhouse was outside; the tradesman, who did not live in the parish, but earned his money there in a booth or shop,—both these men could be taxed if rent paid within the parish was adopted as the standard for rating.

The Jeffrey case was decided in 1589. The next Poor-law Act carefully adopted the principle now laid down by the courts for the determination of liability to local taxation within each area. An Act was passed in 1597 which finally abandoned the collection of alms, and made the burden of poor-relief wholly compulsory. The overseers were directed to

impose the rate as follows. It is interesting to note the exact words, even to mark the bracket, for although punctuation is not admitted to affect the strictly legal interpretation of an Act, such matters are helpful to ordinary readers.

To raise weekly or otherwise (by taxation of every inhabitant and every occupier of lands in the said parish in such competent sum and sums of money as they shall think fit) a convenient stock of flaxe, hempe, wooll, thread, iron and other necessary ware and stufte to set the poore on work, and also competent sums of money for and towards the necessary reliefe of the lame, impotent, old, blind, and such other among them being poore and not able to worke, etc., and also for the putting out of such children to be apprentices to be gathered out of the same parish according to the abilitie of the said parish and to doe and execute all other things, etc. **And be it also enacted** that if the sayd Justices of Peace doe perceive that the inhabitants of anie parish are not able to levy among themselves sufficient sums of money for the purposes aforesayd that then the sayd Justices shall and may tax, rate and asseesse as aforesayd any other of other parishes, or out of any parish within the Hundred where the sayd parish is, to pay such sum and sums of money to the churchwardens and the overseers of the sayde poore parish for the sayde purposes as the Justices shall think fit according to the intent of this law. **And if the sayde Hundred** shall not bee thought to the sayde parties able and fit to relieve the sayde several parishes, not able to provide for themselves as aforesayde, then the Justices of Peace, at their Generall Quarter Sessions, or the greater number of them, shall rate and asseesse as aforesayde anie other of other parishes, or out of any parish within the sayde Countie for the purposes aforesayde, as in their discretions shall seeme fit.

This Act closes the episode of the statutory benevolence scheme, and throws the whole cost of poor-relief on public taxation, but no more than its predecessors does it determine the basis of contribution. Local authorities are still to proceed according to their

good discretions, "as they shall think fit." The measure is, however, full of interest in other respects. We are now able to dispose of two important misconceptions which have arisen round the subject of local rating. It is generally believed that the expression "every inhabitant" refers to the liability of personal property, while "every occupier of lands" refers to real property. So fixed is this idea that the Act of 1840,¹ which professes to exempt stock-in-trade, only makes it unlawful to tax "any inhabitant, as such inhabitant," on this kind of property. Now, taking the clause as it stands,—by taxation of every inhabitant and every occupier of lands in the parish in such competent sums as they shall think fit,—there is no reason why every "inhabitant" in the parish should not be rated on his real property, nor why every "occupier" of lands in the parish should not be rated on his personalty. "Every inhabitant" and "every occupier" have a quite different meaning. The two terms must be taken together as the necessary descriptive phrase for the purposes of the areas of local finance, not as referring to separate groups of property, real and personal.

The second fallacy is the meaning attached to the term "according to the ability of the parish." The use of this expression is the chief argument relied on hitherto by those who have claimed that local taxation should be imposed "on" other properties besides realty.² The mere mention of the word "ability" is taken as proof on this point by people to whom

¹ 3rd and 4th Viet. cap. 89.

² See, for instance, Final Report of Royal Commission on Local Taxation, p. 2.

taxation according to ability is synonymous with taxes "on" all kinds of property.¹ But by reading the section and the one which follows it, we see what was the reason for introducing the phrase. When the collection of alms was abandoned, it ceased to be possible to license beggars to quarter themselves on other parishes in order that the inequalities of wealth in various areas might be equalised. A new method had to be devised for meeting this defect inherent in decentralised finance. The instruction to tax every parish "according to the ability of the said parish" refers to this difficulty, and the provision for assessing any deficiency on other parishes within the Hundred or County is the obvious solution of the problem.

When the above-quoted Act of 1597 came into operation, some discussion arose as to the further definition of the terms "inhabitant" and "occupier." Were all persons to be liable to the relief of the poor? In many countries exemption is granted to certain classes. In Scotland, for instance, ministers of the Established Church are free from this kind of rate.² The word "inhabitant" had to be defined. The expression "occupier of lands" also required some further amplification. Four years later another Act was passed. Its rating clause repeats verbatim the sections of the already-quoted statute, merely adding particulars for the purpose of specifying more closely the meaning of inhabitant and occupier. For clearness the newly introduced words are printed in italics.

¹ See pp. 194 and 201.³

² The ministers of the Church of Scotland are exempt from poor-rates. The exemption extends to manse and glebe, but if the glebe is feued the exemption ceases.

To raise weekly, or otherwise (by taxation of every inhabitant, *parson, vicar, and other*, and of every occupier of lands, *houses, tithes impropriate, appropriations of tithes, coal-mines, or saleable underwoods* in the said parish in such competent sum or sums of money as they shall think fit) a convenient stock of flax, hemp, wool, thread, iron, and other necessary ware and stuff to set the poor on work: And also competent sums of money for and towards the necessary relief of the lame, impotent, old, blind, and such other among them being poor and not able to work, and also for putting out of such children to be apprentices, to be gathered out of the same parish according to the ability of the same parish, etc. **And be it enacted** that if the said Justices of Peace do perceive that the inhabitants of any parish are not able to levy among themselves sufficient sums of money for the purposes aforesaid, that then the said two Justices may rate, tax, and assess, etc. (verbatim as in 1597 Act).

This is the famous Act of Elizabeth, the alleged origin and foundation of our rates. In reality it is not the origin of rates, nor can it be called the foundation of rates, because it makes not even a reference to any basis of assessment. As regards the work of administering relief to the poor, the Act is elaborately precise. The various points are set forth and provided for with a clearness and minuteness of detail which leave no doubt as to the intention of the legislature in any case. But in the matter of taxation the statute expressly provides for the exercise of discretion by local authorities. There is another rating section in the Act which is equally significant. The justices are directed to defray certain other expenses by charging a sum on the various parishes under their jurisdiction, which sums so taxed shall be yearly assessed by the agreement of the parishioners within themselves, or, in default thereof, by the churchwardens and petty constables in the same parish.¹

¹ 43rd Eliz. cap. 2 section 11.

A further clause is also of interest. So little did the legislature at the time intend to make the Act final that the period for which it was to remain in force was restricted to one year.¹ It is highly characteristic of the methods of Parliament that the measure stands to this day, and has not been superseded, but only explained by the Acts of 1836 and 1840.

We see that the statute of 1601 is far from being the epoch-making event in financial history which tradition describes it to be. Its rating clause, on the contrary, is nothing more than a faithful reflection of the tentative nature of the general methods of assessment which were being developed at common law by the self-governing local authorities. It is said that the rating provisions are ambiguous. That is not the proper word to apply. "To tax every inhabitant, etc., in such sums as they shall think fit,"—there is nothing equivocal about that. It is simply not a rating clause at all. In the light of the foregoing parts of this inquiry, we may take it that the intention was to impose the burden on every one belonging to the parish, resident and non-resident, according to their "ability;" but what criterion was to determine this ability the draftsman had no more intention to define than had his predecessors when they ordered the tenths and fifteenths to be imposed "in the ancient manner."

A new kind of expenditure is introduced into local finance by the Poor-law Acts, but no new principle of taxation. When the unscrupulous idea of a scheme of statutory benevolence had served its purpose, and made the people accustomed to having contributions levied on them for poor-relief, the government simply

¹ 43rd Eliz. cap. 2, section 20.

left matters alone. If they can be said to have had any policy at all, it was to repeat parrot-fashion what was known of local customs, and to use this for the development of their new impost. The taxation of "every inhabitant" according to discretion; the addition, when the Jeffrey case had been decided, of "every occupier of lands," as a necessary amplification of the idea of residency,—these are not original inventions of a legislator, but mere transcriptions of local custom.

After this remarkable achievement of introducing a system of public imposts for the relief of the poor, the legislature withdrew even from attempts to be a guiding force in local taxation. When the old customary rates, the county-rate, the town-rate, the hundred-rate, etc., were made statutory, the phraseology of the Act of Elizabeth was repeated. This was not always very carefully done. Sometimes coal-mines would be left out, at other times saleable underwoods were forgotten,¹ but in practice it was assumed that the new statutory rates were intended to be imposed in the same manner as the poor-rate.² If any doubts were felt on the subject by local authorities, the practical conveniences of such an interpretation overruled all scruples.³ In some cases the legislature evinced even greater reluctance to take the responsibility of devising a financial system. By the 23rd Eliz. cap. 11, for instance, a local authority was directed to levy a rate "according as rates, tasks, and tallages have been before this time there rated and levied, or as near thereto as they can." In another case, taxes

¹ "Poor Law Commissioners' Report on Local Taxation," p. 23.

² *Ibid.* pp. 13 and 23.

³ *Ibid.* p. 13.

were to be assessed by local authorities "according to *their* method of rating for the poor." The legislature had never been in the habit of regulating local taxation, and its experience in the poor-rate episode did not create a desire for closer acquaintance. Nothing was done to define the basis of contribution till the year 1836,—the tercentenary of the first Poor-rate Act,—for it had become simply impossible to refrain any longer from at least bringing uniformity into the local usage for fixing "annual value." The celebration was tactfully given an air of historical congruity. The statute was made a purely declaratory Act, and no new principle was introduced into local rating.¹ The measure, further, was made to apply to a portion of the subject only—namely, the poor-rate, and by leaving other rates unaffected had the result of introducing considerable confusion.² The framers of the Act, if they cannot be commended for their statesmanship, may be congratulated on their sense of the fitness of things. In 1840 another statute was passed, and this time the proceeding was considered revolutionary. But the step was necessary. Unless the local custom of not rating stock had been legalised, in opposition to the judicial interpretation of the Act passed by the legislature in 1601, the business of the country would have been brought to a standstill. Of late years the enormous increase of rates has still further accentuated anomalies which were little felt in earlier days, but

¹ Evidence of Sir H. B. Poland, Q.C. (Royal Commission on Local Taxation, vol. i., Q. 2090). Witness pointed out that the Act of 1836 did not alter the Act of Elizabeth. "It is the express opinion of the judge that the Parochial Assessment Act 1836 made no material change in the law; it was merely declaratory."

² Poor Law Commissioners, *loc. cit.* Introduction.

Parliament has answered not with reform, but with the easy expedient of subsidies and doles.

That is the history of rates down to the present day as regards the part played by Parliament. The development of local taxation is a thing to which Englishmen may point with pride as a remarkable monument to their ability to manage their own affairs ; as one of our leading politicians recently expressed it : “ to bungle through somehow,” in spite of the methods of our rulers ; for the legislature has not been a help, but, as will immediately be seen, a very great hindrance. When it has stepped in, it has stepped in to impose a handicap. The French government took the *contribution mobilière* in hand after the Revolution, and ordered the subject with a conscientious care and a degree of ability which deserve the highest praise. But the people themselves, of their own initiative, did very little. Our local rating is distinctly one of our national achievements. When, however, in the subsequent parts of this essay we look at the reverse of the shield ; when we examine these old customs, which have long been deprived of their pliancy by legal decisions ; when we become alive to all the injustice and hardship involved in the use of a system which was created in the middle ages,—then, for practical purposes, we modify our admiration. A grandmotherly legislature may be a curse, but in so complicate an affair as decentralised finance it is not sufficient only to govern—it is necessary also to guide.

II

The statute of Elizabeth is not epoch-making in the sense of having created our system of local taxation. Nothing could have been further from the intention of the legislature than to make it so. The significance of the Act consists in something different. Its directions for rating were indefinite—as indefinite as the traditions which regulated the old rates at common law, for they were a faithful statement of these traditions. The important fact is that what there was had been put in black and white. If anything indefinite exists in black and white in a statute, our constitution provides a remedy. The lack of precision will be made good by the law-courts. Persons in doubt as to the intention of the legislature could now apply for a judicial interpretation. That is why the statute of Elizabeth has become important. The law-courts were soon busily engaged in performing their constitutional functions.

This something in black and white, which constitutes the contribution of the Poor-rate Acts to the science of local taxation, has been the ruin of the system. In the absence of careful enactments, at once broad and definite, unwritten rating laws have all the advantages of unwritten constitutions: they can be modified as circumstances require. What the Act of Elizabeth did was to lay down certain regulations regarding local taxation, which were too vague to be of assistance in practical work, and which were still sufficiently precise to create a belief, that the statute ordered the subject, and that its directions must be

followed. It is true, the government could not very well help itself. By plundering the Church it had removed the funds which hitherto had provided for the relief of the poor, and to supply a substitute was obviously necessary. Inactivity was impossible, for a situation had been created with which ancient custom of itself could not deal. The government was compelled to at least make an attempt to introduce a system for providing funds. The various Acts which were passed for this purpose have been recited. As a general result local rating was not in reality regulated. It was, however, removed from the realm of common law, and placed in the department of statute law.

The influence of this circumstance in blighting the development of our rates must now be traced. As long as rates were assessed at common law they were safe. It was certain that nothing absurd would be done, for common sense and the knowledge gained from practical experience would have built up a body of law in the same manner as they have piece by piece created some of the most cherished institutions of our country. "It is the theory of the English law and constitution," Mr. Bryce remarks,¹ "that the judges of the common-law courts are nothing more and nothing less than the officers who expound and apply the common law—a body of usages held to be known to the people, and by which the people live—usages which existed in their rudimentary state as far back as our knowledge extends, most of which have not been formally embodied in any legislative act." There are many things which legislation cannot do in the early stages of the growth of a State,

¹ *Studies in History and Jurisprudence*, vol. ii. p. 270.

partly because the proper machinery is wanting, partly because the legal ideas are still fluid and fluctuating and unfit for expression in statutory terms. While local rating was in this condition the judges interpreted usage, but allowed themselves to be guided by common sense and a knowledge of what was expedient. We saw the result in the admirable decision given in Jeffrey's case.

The error into which the legislature was dragged in consequence of the confiscation of ecclesiastical property was to attempt to define the common law of local taxation. The terms employed were broad enough certainly. *By taxation of every inhabitant, etc., and every occupier, etc., in such competent sums as they shall think fit*, is broad enough for anything, but it is hopelessly indefinite. The "codification," to use the modern phrase, was performed in the most unsatisfactory manner. The courts were called upon to give a judicial interpretation, but the subject had to be approached from a different standpoint from that adopted in Jeffrey's case. The legislature professed now to have regulated rating by embodying the law in a statute, and this radically changed the aspect of the question. It is the first principle of the judicial interpretation of Acts of Parliament, that a judge is not a law-giver. All he has to do is to declare the intention of the legislature, and he exceeds his authority the moment he ventures to make laws on his own account. This rule had to be applied to the Act of Elizabeth. The courts had to give definite decisions, and they also had to profess to do nothing but construe the statute. But so indefinite was the statute that to construe it meant to create a law of

taxation; and at the same time this act of judicial legislation had to keep within the limits of the rules of interpretation. It is impossible not to admire the ingenuity with which learned judges performed their task. They had, as we saw, a perfectly clear perception of what local usage was, and it is almost amusing to trace how they twisted and turned in order to effect a reconciliation between their reading and the letter of the law, and their knowledge of the spirit of practical experience.

The statute enumerated the persons to be taxed—not a word more. The judges set themselves to determine the property to be taxed. These properties they, in their turn, proceeded to enumerate. When the list was complete, the confusion was also complete. The impression became fixed that rates were a tax *on certain kinds of property*. The reader's attention is begged while a short digression is made to explain one of the most important principles of finance: persons are taxed, not property. It must be clearly understood that no tax whatever is "on property," not even a directly assessed tax, and far less an indirect one. The careless use of phrases has caused a belief to become firmly rooted in the popular mind that taxes are imposed "on property." Any one wishing to deal with the problems of taxation must, however, impress himself with the fact that property is *the measure* of an individual's ability to bear taxation—nothing more—"property" being taken in its widest significance. We make the assumption that ability to pay is indicated by the ownership of property—is perhaps even in proportion to the ownership of property.

But property itself, the measure of ability, has no ability. For instance, one hears it said that the 750 million consols pay income-tax. They do nothing of the sort. How about the portions held by small investors? What is the ability of that property? The tax-revenue derived from consols is entirely dependent on the ability of the individuals who own them. If the whole scrip were held by persons below the £160 tax-limit, the 750 millions of property would not contribute one penny. Even a direct property-tax is, therefore, not imposed "on all property." Persons are taxed, not property. Still more obvious is the error when people speak of articles "being taxed," which are mere "pegs" for indirect assessment. One hears it said that beer is taxed—that tea, champagne, dogs, armorial bearings, and so on, are taxed, while it is, of course, the individual who uses these things who is taxed. Similarly with "ratable" property: we say real property is taxed—while a glance at an assessment roll would show that it is the occupiers who are entered by name and taxed by rent. The reader must not imagine that this is mere refining about the use of words; the distinction between property and persons is a very real one. In direct taxation it is not possible to go far wrong. The income-tax, for instance, is tapped at the source, which is equivalent to taxing "all property," but in indirect taxation the case is different. A good indirect tax—say a rent-tax—is already a drain on the resources of every individual. The wish to supplement such an impost by taxing "other property" is founded on a false conception. The same error occurs in national taxation. How often do we not hear the

claim "that the basis of taxation is too narrow," "that more property should be included in the net." To add to the property subject to direct taxes is impossible; we have a tax on a man's whole income, and a tax on a man's whole property at capital value — *tertium non est*. Indirect taxes, on the other hand, can certainly be multiplied indefinitely. But that is not to "make the basis of taxation less narrow," but simply to add to the existing number of "shots" at the ability of individuals. We have a "shot" made at our ability by the beer-duty, another by the tea-duty, and so on, and the rent-tax is just a "shot" of the same kind. To solve the problem of local taxation it is necessary to inquire whether the shot is a good one, but until we have done so the question must be left in suspense whether the rate-payer ought to be exposed to a broadside of other missiles on the plea "that more property be included in the net." The fallacy, indeed, regarding the taxation "of" property is similar to the old historic delusion that abundance of gold is a sign of national wealth. Gold is *the measure* by which we express wealth. A dock, or an embankment, we say, is worth a million pounds or sovereigns. Similarly property is merely the measure by which we express tax-bearing ability. Whatever the tax may be, it is the individual who is taxed, and property is the measure, not the subject of taxation.

The first great drawback of the judicial interpretation of the Act of Elizabeth was the promulgation of the doctrine that rates were a tax "on" property. The statute enumerated persons only; indeed the rubric, which gives the customary summary of the import of each section, prefaces the rating clause with

—*Who shall be taxed towards the relief of the poor.* But the judges had to do what they could, and they enumerated the properties liable. These properties they divided into two classes: I. Properties specially made liable by mention in the Act; II. Properties made liable by implication.¹

Class I.—These properties held “expressly made liable” were the properties the occupation of which was laid down by the statute as bringing a person under the taxing authority of the parish. It was decided that such properties were “made liable.” The first item was “lands.”

“Lands” was held to include all profits derivable from the use or sale of the body of the soil itself. The special mention of the liability of “coal-mines,” “saleable underwoods,” and “houses” created the only exceptions to universality. Roads, bridges, docks, canals, mineral-waters, salt-springs, clay-pits, gravel-pits—in fact, everything conceivable was included. What the “ability” of a hard road may be, it would be difficult to tell, but everything that was “land” had to be taxed.

The only exemptions were caused by the familiar rules for the interpretation of deeds, etc.—namely, that the mention of a general class, like lands, and the express mention of a particular class, like coal-mines, excludes all other property belonging to the class of which one representative had been expressly emphasised. The express mention of coal-mines as liable exempted all mines except coal-mines. Copper, lead, tin-mines were exempt—even clay-mines, although

¹ An excellent synopsis of the judicial interpretation of the Poor-rate Acts is given by the Poor Law Commissioners, *loc. cit.*

clay-pits were liable. If the minerals were procured by a process which was not mining, but rather quarrying, then they were liable. Conversely, coal procured from surface operations, and not by mining, was exempt. These interpretations remained the law till 1874.

"Saleable underwoods" being expressly mentioned exempted all wood and timber which was not under-wood, and not saleable. This also remained the law till 1874.

"Houses" being expressly mentioned, ought, on a similar principle, as the Poor Law Commissioners pointed out, to have exempted all buildings not coming under the description of "house." Such a construction would have been a serious break with custom, and was not adopted. Buildings, other than houses, were defined as "lands." Episcopal churches, however, were held to be exempt, but the places of worship of other denominations were made liable. They continued so till the passing of the 3rd and 4th Will. IV. cap. 30.

If one were to judge the performance of the courts on its merits as the interpretation of a statute, it would be impossible to condemn it in too strong terms. One cannot find fault with the details relating to mines, etc.: these are grotesque, but that was not the fault of the courts, who adhered strictly to the legal rules. But to enumerate "property expressly made liable," when only persons were mentioned, and to lay it down that this property made liable was not to be taxed in the hands of its owners, but in the hands of occupiers, is utterly ridiculous. This, however, is not the way to criticise the interpretation.

The judges had to construe a statute ordering local authorities to tax "as they shall think fit," and they had to do what they could to legislate without professing to legislate. It is impossible to place one's self in the mental position of a person to whom a property-tax is intelligible which does not fall to be paid by the owners of the property. But it was something like the local custom. To tax "property" in the hands of occupiers is not quite the same thing as to tax occupiers, and guess their ability by their rent, but it comes to something like the same thing. The courts could go no closer without openly legislating.

The errors which have flown from the interpretation of the so-called "properties expressly made liable" are, roughly, two: (1) The theory has become fixed that rates are exclusive taxes on one single form of property. This conception underlies our system of general grants out of central funds for rectifying the imaginary partiality of local taxation. Further, the tax being looked on as a tax "on property," has led to the gradual abandonment of the large exemptions which used formerly to be given to the poor. These exemptions were given because rates, in their original clothing of ideas, if that term may be used, were a "guess" at ability based on consumption of real property, which, being a "necessary," enters more largely into the expenditure of the poor than of the rich. These matters will be the chief subjects of discussion in the sequel; here they need only be indicated. (2) The second error is this, that rates being regarded as a property-tax, have come to be imposed according to the yield of the property—in other words, on annual value, less deductions for

upkeep, repair, insurance, etc. Such a basis is the correct one for a tax on income derived from property payable by the owner, but it is false for a rent-tax payable by the occupier. Many flagrant instances of the anomalies produced by this theory of "annual value" might be cited. Take, for instance, two country houses: Chatsworth—occupier, the Duke of Devonshire; Laurel Bank—occupier, James Williams. The duke's palace is a source of enormous expense, and yields nothing; but, *pro forma*, the annual value, on the basis of a tax on the yield of real property, is put down at about £200. Laurel Bank is rented by James Williams. The place has an excellent tennis lawn, four sitting-rooms, bedrooms, billiard-room, servants' rooms, pantry, bathrooms (h. and c.), etc.—annual value, £200. As a basis for taxation, according to the income derived from property, these two sums are sufficiently absurd. The owner of Laurel Bank draws £200 a year because he lets the house and lives somewhere else, but the duke is distinctly overtaxed on Chatsworth. The house a man lives in does not yield him revenue—it is a kind of expenditure; one might as well make the owner of trousers pay on the annual value of his breeches. As occupiers' taxes the positions are reversed. Mr. Williams pays local rates on Laurel Bank on the basis of £200 a year, and the Duke of Devonshire pays on Chatsworth at the same figure. They both occupy houses of the same annual value, their "ability" is guessed to be equal.

When the judges came to Class II. and endeavoured to evolve a description of the properties "made liable by implication," they found themselves involved in

some difficulty. "Every inhabitant and every occupier of lands, etc., in such sums as they shall think fit,"—these were the directions. The real property expressly made liable had been settled, but what other property was to be taxed? The statute merely defined the persons to be held to belong to the parish, and left everything else undecided. The judges, like the local authorities, might have done what they liked: what they did was to fall back on local custom. Let us take the case of two men, Mr. Williams and his landlord. Mr. Williams, we may assume, has not a square foot of real property, and is rated by the rent he pays. The owner of Laurel Bank, we may assume, has nothing but real property. He may let all his property, or he may retain some in his own hands, but the sum on which he is rated is the annual value of the house he occupies. Both men, Williams and the owner of Laurel Bank, live in houses in accordance with their means, and pay rates on this basis. If they draw a couple of thousand a year from consols or from rents, it would be palpably unfair to rate them on these as well as on their house-rent. It would involve taxing them by a direct measure and by an indirect one also. The practical experience of local administrators had made them aware of this fact, and when rating on occupier's annual value, they rated on nothing else, as we saw in Jeffrey's case. Jeffrey was not rated by the rents he received but by the value of his occupancy, "for the greater equality and indifferency." The judges proceeded to give expression to this usage, and accordingly to exempt all "other" property.

To effect this object, it was only necessary to

adhere to the legal principles of interpretation. The courts laid down two points. First, that it must have been the intention of the legislature to tax some *other* kinds of property than those expressly made liable (lands, houses, etc.). The legislature had, of course, made nothing expressly liable. Secondly, that the other property which the legislature had made liable "by implication" must be, although not identical, yet *analogous* to the lands, houses, and other properties expressly made liable. This reasoning is in strict accordance with the rules which guide courts in the interpretation of deeds and other documents. The *other* property on which the local authority was to rate must not be the same as that expressly mentioned, but must be analogous; not real, but analogous to real. As there is no property which is analogous to real property without being real, it followed that the legislature had no intention to tax other property. The mystery was solved.

While these two principles adhere, and even cling, to legal rules, they must be described as absolutely gratuitous. They are like the schoolboy's proof that a lie is an impossibility. It passes the wit of man to follow the reasoning of the learned judges. Why should occupiers of land, or mines, or woods, or houses in a parish not be taxed on their ownership of real property, as far as the statute goes? Why should they not be taxed on their ownership of personalty? Why, above all, should any one be taxed in respect of occupation? Inhabitants also, as far as the statute goes, might perfectly well be held to be liable in respect of all their property, both real and personal. But the decision was as admirable

in practice as it was illogical. It completely accorded with local custom. The law courts could now be appealed to for a declaration that all owners of property were exempt in respect of ownership. The local authorities were saved. By a few daring strokes of tortuous reasoning the judges succeeded in giving an interpretation professedly based on the statute, but in accordance with practical experience. Local rates were not a direct tax on that slippery customer, the owner of wealth, but an indirect tax. The decision that no one was to be taxed on property identical with that expressly mentioned as liable in the hands of the occupier cut out the owners of lands, houses, coal-mines, etc. The finding that the property was intended to be analogous to real property cut out the owners of personal property.

But the exclusion of owners of property was not quite so simple. "Not identical, but analogous," was a useful rule for interpretation, but the meaning had to be further defined as applied to real property. It was held that lands, houses, coal-mines, etc., could be distinguished by three attributes: "visible" (a term utterly unknown to English or any other law), "locally situate within the parish," and "productive of profit." Property not possessed of these three attributes was not analogous to real property, and therefore not liable by implication.

Labour, talent, and personal application were not "visible," therefore not "analogous," and the income derived from them was held to be exempt.

Investments held by a parishioner in undertakings beyond the boundaries were not "locally situate within the parish," and also exempt.

Furniture, brass caldrons, tea-spoons, and all the other goods enumerated according to statute in the Colchester roll were not "productive of profit."

The performance of the judges must be described as remarkable. They had been placed in an extremely awkward position—namely, to be compelled to make a law, while having to confine themselves to interpreting a law. Their efforts were nothing less than frantic, but the result was a distinct success—on the assumption that the mystery was to be solved by the rules of interpretation. By an utterly illogical course of reasoning, a body of legal principles was promulgated, which brought the "statutory" rate into line with the customs created by the "rude forefathers of the hamlet." Ownership of property was to be disregarded, and occupation of real property made the standard of contribution. The problem of securing contributions from general property was solved by the use of indirect assessment. In an agricultural country with the institution of landlord and tenant, which enabled rent to be easily determined, all went fairly well. Rating created few difficulties for about two centuries. Given a legislature which was incapable of exerting itself, the people created a system of local taxation themselves, and, for the time, not unsatisfactorily.

The two principal drawbacks of judicial interpretation have already been referred to. It is necessary to note another difficulty which created considerable unrest for about fifty years—namely, in the period from about 1790 to 1840. Local authorities no longer depended on custom for a guide, they could, also, get no assistance from the statute; they had to refer to an enormous body of case-law. Rates were

regarded as direct taxes on property, except for the special exemptions. It was discovered that "local, visible, and profitable" did not exempt two classes of property in the hands of its owners—namely, money invested *within* the parish, and goods in the hands of a tradesman. Money invested *outside* the parish was held to be visible, profitable, but not local; if invested *within* the parish it was held to conform to all three requisites, and to be, therefore, ratable. Stock-in-trade, also, was visible, profitable, and local. About the years 1790 and 1800—that is, two centuries after the passing of the Act of Elizabeth—these questions came into notice.¹ It must be clearly understood that these are new problems. They arise directly out of the definition of "analogous to real property" which was used in order to legalise the single tax on occupiers' rent. The courts—to briefly summarise the foregoing—had aimed at expressing local usage as best they could in terms of the Act. The usage, they knew, was to rate occupiers on rent—*vide* Jeffrey's case. To express this usage the judges took the clause, "every occupier of lands, houses, tithes impropriate, coal-mines, and saleable underwoods," and these disconnected words being useless, they *improvised* the necessary complement—namely, that every occupier was to be rated on the annual value of the lands, etc., he occupied. Local usage being thereby exhausted, the rest of the clause had to be got rid of, as so much verbiage. For this purpose the judges admitted an intention on the part of the legislature to rate "other property," and then proceeded to knock down this man of straw by means of the grotesque definition of

¹ "Poor Law Commissioners' Report," p. 21.

real property—"something visible, local, and profitable." These serviceable quibbles, however, in course of time acquired the reputation of being principles. In this new garb they now paraded the country.

One of our judges made a spirited attempt to avoid the absurdities involved in the interpretation by placing the whole rating problem on a broader basis. Lord Mansfield's decisions on all subjects are characterised by great wisdom, and two of his opinions on rating deserve to be quoted for their historical interest. In one instance Lord Mansfield was called upon to interpret the celebrated section of the 1601 Act. In the course of his decision he remarked: "The words of the statute are very loose and very general, and they may be construed into any latitude, even to make all a man has, and all he may get in any way, the measure of his ability; for truly and substantially it is so; but usage has explained and narrowed it."¹ This judgment, by the most eminent lawyer of his day, is historically of the highest value. It gives his opinion on the three points about which there prevails so much confusion. In the first place, the statute was still believed to contemplate taxation "according to ability;" secondly, the only "true and substantial" measure of a man's ability is "all that he has and all that he may get in any way," which, according to strict interpretation, was also the reading of the statute; finally, that it was "usage" which had modified the measure of ability. Had Lord Mansfield's opinions prevailed, inextricable confusion might have been avoided.

In the second instance, his lordship had to decide

¹ "Poor Law Commissioners' Report," p. 21, footnote.

whether a brewer's stock was liable to be rated. He held that it was not, and based his opinions, not on the arguments of his predecessors, which he treated with contempt, but on the broad, though extra-judicial ground of common sense. "In general, I believe," Lord Mansfield said, "neither here nor in any other part of the kingdom is personal property taxed to the poor-rate . . . the justices at Sessions should have *amended* the rate if they thought this property ratable; and then, on attempting to do it, they would have discovered the wisdom of conforming to the practice which they expressly state in the case, of not rating it. If they had tried to have amended it, how would they have rated this stock? . . . If the justices had considered, they would have found out the sense of not rating it. The difficulties attending it are too great, and so the justices would have found them."¹ Lord Mansfield also referred to the inequity of the proceeding. "Some artificers," he said, "have a considerable stock-in-trade, some have only a little, others none at all. Shall the tools of a carpenter be called his stock-in-trade, and as such be rated? A tailor has no stock-in-trade, a butcher has none, a shoemaker has a great deal. Shall the tailor, whose profit is considerably greater than that of the shoemaker, be untaxed, and the shoemaker taxed?" Lord Mansfield decided that stock was not ratable.² Unfortunately this was law-giving, not interpretation. As Mr. Bryce has remarked, there was about Lord Mansfield's judgments "a faint flavour of prætorian methods."

¹ "Poor Law Commissioners' Report," p. 21, footnote.

² *Ibid.*

Regarding the arguments by which his predecessors had endeavoured to arrive at the exemption of owners by roundabout means, and by nominally adhering to the letter of the statute, Lord Mansfield brushed them aside. "As to the authorities which have been cited, they are very loose indeed, and even if they were less so, one would not pay them much deference. Especially as they differ, and as the rules they lay down have not been carried out for upwards of 100 years. They talk of *visible* property—what is visible property? I confess, I do not know what is meant by visible property."¹

But even Lord Mansfield had not sufficient authority to overturn a course of decisions which extended over two centuries. The profession might wonder at the interpretation, but it was now too firmly settled to be questioned in a court. The liability of stock-in-trade and personal property *within* the parish was a few years later treated as beyond doubt. Lord Mansfield himself was among the judges who declared the following to be a good rate on stock and personal property: To get hold of the stock and money out at interest as best might be and take one-twentieth part thereof. To calculate interest on this twentieth part at 4 per cent, and divide the result by two; this sum to be the "annual value."² The Poor Law Commissioners pointed out that this process amounted to assessing on $\frac{1}{500}$ th part of actual value.³ In this they made an arithmetical slip, for the method resulted in assessing personalty at $\frac{1}{1000}$ th part of its value.⁴ Another

¹ "Poor Law Commissioners' Report," p. 21, footnote.

² *Ibid.* p. 29 (Rex v. Hardy, 3 Cowp. 579). ³ *Ibid.* p. 29.

⁴ Thus: $\frac{1}{50}$ th at 4 per cent = $\frac{4}{2500}$; one half whereof = $\frac{4}{5000}$ = $\frac{1}{1250}$ th part.

method for assessing personalty to which the Report on Local Taxation of 1843 draws attention, as "much adopted in towns of the West of England," was to add some percentage, usually between the extremes of $1\frac{1}{2}$ and 4 per cent, to the rental value of the shop, or factory, or warehouse. This rule, however, only applied to stock, and not to money out at interest.¹ The liability of stock was also narrowed down in every possible manner. Being ratable only as constituting the ability of an "inhabitant," a tradesman was not liable if he lived outside the boundaries. This reasoning produced a decision that where of several partners only one resided in the parish, he alone was ratable on the stock, and not his partners.² Further, if stock did not belong to an inhabitant,—a case most frequent since the introduction of commercial credit,—the parishioner was not ratable.³ If the stock was his own, it must constitute "ability," and the profits therefrom must exceed the expenses of himself and his family, and also his debts and liabilities.⁴

In general practice, however, the position remained as before. Stock and money at interest *within* the parish might be liable, but, on the whole, they were not rated. Not only was the injustice too flagrant, for the burden fell most unequally, but the difficulty was too great. "It would be impossible, and if it were possible, it would be intolerable, that neighbours filling the office of churchwardens, etc., should make such searching inquisitions as would be requisite for the purpose of giving effect to a liability so complicate

¹ Poor Law Commissioners, *loc. cit.* p. 29.

² *Ibid.* p. 21.

³ *Ibid.* p. 22.

⁴ *Ibid.*

in its details and difficult of estimation as this.”¹ In fact, so little controversy existed on the subject, that when in the year 1836 the basis of local taxation was for the first time regulated by Parliament, and the method of fixing “annual value” defined, not even a reference was made to the subject of rating personalty.

This satisfactory state of affairs was rudely terminated by the action of a rate-payer. An ingenious individual called Lumsdaine refused to pay his rates because personalty had not been included in the assessment. Certain kinds of personalty were liable; his portion of rates had, therefore, been illegally ascertained, and he maintained that he could not be forced to pay such a tax. The courts upheld his contention, and quashed the rate.

Approached in this manner, the position became critical. It was now no longer a question of whether local authorities would undertake the laborious and vexatious task of rating stock, etc., but the pressing dilemma that any one could refuse to pay rates if the existing practice was maintained. The aspect of affairs was changed, and the poor-legislature was fairly cornered and forced to do something. A Bill was consequently introduced, not that the whole question might be reconsidered, but that the special point which had arisen might be set at rest by repealing the existing law of rating personalty. The House hesitated to suddenly adopt so drastic a measure, and the Bill was withdrawn. Another measure was introduced and passed for one year only, after which period “all the provisions hereinbefore contained shall absolutely cease, and be of no

¹ Poor Law Commissioners, *loc. cit.* p. 29.

effect." This was the Act of 1840, the 3rd and 4th Vict. cap. 89, which makes it illegal to tax "any inhabitant, as such inhabitant," on the profits of stock-in-trade and other property (not only personal). This statesmanlike measure has been annually continued about sixty times.

We are now able to dispose of the question: Why are people rated according to the annual value of their occupancy of land and buildings? The answer is this: Not from any clearly thought-out plan of finance, certainly not from any intention of taxing land as such, least of all, "because the Act of Elizabeth says you shall be," as the Lord Chancellor would have it; not by the action of any statesmen, nor as the result of any definite policy, but simply owing to the remarkable and altogether exceptional circumstances under which local taxation originated and has been developed in this country. The people themselves, not their rulers, were called upon to form a system of finance. In doing so they have established the cardinal principle that a large portion of wealth—namely, personalty—cannot be got hold of by local authorities, and that, therefore, direct assessment is impossible. The alternative of indirect assessment was adopted, and the problem was solved in a fashion which, under the conditions of the time, was satisfactory. The rent-test gave a certain approximation to ability, except in the case of the poor, and these received numerous exemptions. The test was also a rough-and-ready means of overcoming the difficulty, which flows from small areas—that non-residents may belong to a parish. As regards the part played by the central government, it was the dissolution of the monasteries that drew it into the

subject of local taxation—a matter hitherto studiously avoided by legislators. But in the development of their poor-rate our Parliaments made no contribution to the science of rating. Even the idea of licensing beggars to collect alms in other parishes originated with the local justices. Statesmen either did nothing at all, as in the matter of defining the basis of contribution, or accepted usage, as in the employment of the words “inhabitant” and “occupier” for determining liability to be rated. When the Act of Elizabeth was taken into the statute-book the old customs had to be construed beyond all recognition by judicial interpretation, and the Acts of 1836 and 1840 have now stereotyped the whole spiritless mass of case-law. That is the nature of the system by which we raise forty million pounds of rates. It is only to be expected that many absurdities and much inequity should be the characteristics of such an institution. But before we can pass to the question of reform, it is necessary to deal with the second difficulty barring the way,—the speculative theory. This will be done in the succeeding chapter.

CHAPTER III

THE EFFECTS AND THE TRANSFER OF LOCAL RATES

THE central point in current discussions on local taxation is the alleged exemption of "non-ratable property." Now it is historically true that rates, when they came to be levied on persons in respect of expenditure on rent, were intended to tax people according to their general wealth. Modern conditions have destroyed any approach to equity between individuals, but as regards the fund out of which rates are paid, it is still true that at the time of collection rates can only be paid out of general wealth, be it real or personal. Individuals may not contribute according to their ability: the payments demanded from them may be too great, or too small,—for the reader will remember that indirect taxation in avoiding the danger of fraud courts the risk of inaccuracy,—but every species of wealth is tapped with unfailing certainty. When rates are collected from us we pay them out of our income in general, no matter whether it is derived from labour, capital, or land.

It is hardly necessary to elaborate the point that when rates are paid by occupiers, the whole wealth of

the nation is drawn upon as surely as by any other indirect tax, say the excise-duty. The time-honoured shibboleth "non-ratable property" embodies a falsehood. Why not talk of "non-excisable property"? The spirit-duties are levied on certain property only, and a great portion of the property in the country is not subject to excise. Were any one to talk of "non-excisable property" he would commit the same error as the people who talk about "non-ratable property," for the principle of the excise and the rate are identical. These taxes fall on the inhabitants and occupiers of England in proportion to their consumption of the taxed property, liquor or houses, and if the consumer pays them the burden falls neither on excisable property nor on ratable property, but on general property. When it first struck the present writer that, unless rates are paid exclusively by landlords, local taxation in its established form secures contributions from personal property, he confesses to have laboured under the exciting delusion of having made a discovery. "Non-ratable property" is such a commonplace of discussion, the term and the idea have been sanctioned so often by Parliaments, commissions of inquiry, and even by professed experts, that one accepts them without thinking. But the great authorities on taxation have given no support to such a crude conception. Since the days of Adam Smith it has been known by economists that rent-taxes "fall not upon one only, but indifferently upon all the three different sources of revenue:" the wages of labour, the profits of stock, and the rent of land.¹

Rates, then, as far as they fall on the occupier, are

¹ Book v. chap. ii.

levied from general wealth. The question is whether rates do fall on the occupier. The tenant on whom local taxation is levied may, by deducting the rates from the rent, bring it about that not he, but his landlord, bears the burden. To whatever extent this transfer takes place, a rate ceases to be a tax on general property and becomes a tax on real property. The popular proof that rate-payers transfer their rates is largely dependent on the historical fallacy regarding the intention of the Act of Elizabeth. Rates are described as a tax on real property, and therefore as a burden on the owners of real property. But the question of the payment of local taxation is also treated theoretically. Although house-letting is a transaction of everyday occurrence,—a matter so common that there is probably no one who has not frequently been engaged in it,—yet the course adopted by tenants is debated as one might discuss an action of the inhabitants of Mars, or of the builders of the Great Sphinx. Theories of the most abstract and complicated kind are constructed; the whole subject is, indeed, described as “insoluble.”¹ These speculations must now engage our attention.

The uncertainty prevailing in regard to this vital problem, Who pays the rates? at present bars the way to reform. Every conceivable answer which human ingenuity can suggest is given to the question, and, whatever proposal a person may put forward, one or other of these answers is sure to be thrown in his teeth. Occupiers complain of their burdens—people get up and tell them that the owner is the person who

¹ Final Report of Royal Commission on Local Taxation, p. 109 (Sir E. Hamilton and Sir G. Murray).

pays. Owners agitate for the alteration of a system which they contend mulcts them exclusively—they are answered with the assertion that occupiers pay rates. Owners and occupiers combined ventilate their grievances—they are informed that rates are an hereditary burden on real property, and that no one pays rates at all now. Rates are “a deduction from property in the nature of a rent-charge,” for when an owner parts with his property, the purchaser takes into account all the rates which tenants will shift on to him, and deducts this sum from the price. The people who paid rates are therefore dead long ago, and their property has descended to its present holders diminished by a capitalised payment in respect of local burdens.

Such theories and counter-theories block all progress. No removal of the grievances of individuals can be taken in hand as long as we are in doubt whether no one pays rates, or every one; whether the dead pay, or the living; whether owners pay, or occupiers; whether owners and occupiers both pay, or whatever else the possible combinations may be. It should be observed that the uncertainty about who pays occupiers' taxes is confined to England. In France people have definitely made up their minds that occupiers' rates are paid by occupiers, and during the century which has elapsed since the Revolution there has been a steady succession of measures for the reform of the two great taxes on occupiers' rent: the *contribution mobilière* and the *contribution de patente*. In Germany we find the same absence of hesitation. House-duties are, however, strongly condemned by Germans, and the central government has been com-

pelled to allow local authorities the alternative of imposing their rates on the assessments made for the national income-tax. Town after town has abandoned the rent-tax and adopted a direct income-tax. Since 1893 the central government has even prohibited rent-taxes.¹ There has been no opposition to these reforms on the plea that a change in the form of income-tax from a house-duty to a direct assessment would be no benefit to occupiers, but would only put money into the pockets of landlords. But let any one in England suggest an alteration of rates, and immediately there arises a violent controversy on the mysterious subject of "incidence." It is therefore obvious that before anything can be done in the way of reform a final answer must be secured to the question: Who pays rates?

The various answers which may be given fall into three classes: (1) that the landlord pays all the rates; (2) that the tenant pays all the rates; (3) that deceased landlords, landlord and tenant all pay rates, and that the proportions in which they respectively do so, vary not only from place to place, but according to an infinite number of circumstances, most of which are incalculable and incapable of being expressed in definite terms. This last is the economic theorist's answer to the question: Who pays rates? Briefly expressed, it is simply this: Goodness knows. For practical purposes this answer is useless. It is impossible to produce a scheme of finance if the taxpayers are goodness knows who. No proposition can

¹ This refers to Prussia. A few towns have special permission to retain the rent-tax. See Kommunalabgabengesetz, 1893, § 23, subsecs. 3 and 4.

be more obvious. Consequently it follows that answer (1) is serviceable as a basis for reform, and that so is answer (2), but that answer (3) paralyses all action. If answer (1) is accepted—namely, that the landlord pays all rates—the line of reform is clear: a new local tax must then be devised which will make owners of personalty contribute to local services. If answer (2) is accepted—namely, that occupiers pay all rates—the scheme of reform is also clear. Rates, in that case, are a rough income-tax which reaches “indifferently the three different sources of wealth”: the wages of labour, the profits of stock, and the rent of land, for every one, whoever he may be, is an occupier. The form of income-tax, however, is one of more than primeval simplicity and ought to be adjusted. In doing so we should have abundant experience to guide us, not only in old English customs, now abandoned, but also in the treatment of taxes on occupiers’ rent in France and Germany. But if answer (3) is accepted—namely goodness knows who pays rates—then the practical outcome must be that we do nothing, for we neither know who pays the existing rates, nor can we tell who will pay any rates which may be imposed in the future.

The consequences involved in answer (3) are worth considering. We may lay it down as an axiom of politics that local government must be coupled with local taxation. It is possible to conceive a system under which local bodies would receive their funds from the State, and lead an even useful existence under the tutelage of watchful officials, but independence, expansion, and progress are not conceivable unless there is local taxation. Now we have at

present reached a point in England when subsidies and doles are beginning to take the place of rates. Under the new Education Act, for instance, it is contemplated that the funds provided out of central taxation may in some cases amount to 75 per cent of local expenditure; in Germany the central grants to similar schools equal about 7·7 per cent of expenditure.¹ Further, we may look forward to a very rapid extension of grants unless reform is faced. Public opinion will demand that the method of reasoning which has been applied to the case of farmers and parsons should be extended to that of the poor. Answer (3) is quite incapable of stopping the course of events. Let the theorist get up and address the poor man: "My dear sir, reflect for one moment. This subject is full of complexity. A direct answer cannot be given. Goodness knows who pays these taxes. Taking all things into consideration, however, there is every probability that you do not pay the entirety. It seems, on the whole, to be the best opinion, that economic forces enable you to compel your landlord to bear a certain portion of the burden, which varies from place to place, and according to circumstances. If the government were to remit you anything of that, you would simply go and offer your landlord more rent. Think of that, my dear sir." Farmers refused to believe the theorist, and it is improbable that the poor will be induced to believe him either. They will insist on getting a dole too. When that day arrives, local taxation will become a

¹ *Report of the Municipality of Breslau, 1897-98.* (Rates, 91·1 per cent of expenditure; central grants, 7·7 per cent; fees, 1·2 per cent.)

subsidiary source of local revenue, and the problem of decentralised administration will, under these conditions, become insoluble. This is the inevitable consequence of accepting an answer which does not enable one to determine who pays rates. An answer which is precise and entirely free from uncertainty is alone capable of being made the basis of a scheme of finance.

The first possible answer to be considered is the payment by the landlord theory, namely, that rates are a burden on the owners of real property exclusively. The question to ask is, whether a tenant deducts all the rates from his rent before he "offers" a certain sum for a house. Sometimes the people holding this theory admit that tenants may have to bear the burden of any increase in rates which takes place since they entered into tenancy. This admission can only hold good as far as the increase in rates could not be foreseen, for if we maintain that landlords have no choice but to accept what tenants offer to them; and if we hold that the tenant is so keen a bargainer as to discover this impotence; then it is only proper to assume that the tenant will deduct a sum sufficient to cover any increase of rates which, in his opinion, is likely to occur during his tenancy. Indeed, the theory amounts to this, that the ostensible rate-payer (*i.e.* occupier) is not affected by rates at all; and in this shape the doctrine was, as a matter of fact, expressed by Sir G. Cornwall Lewis, Sir G. Nicholls, and the other Poor Law Commissioners in their great report of 1843. These officials described landlords as the "sole contributors" to local rates, and advocated that the practice of collecting the tax from occupiers should be abandoned in favour of

levying the money directly on the owners of real property. It was useless, they held, to disguise the "real and essential" character of rates and give them "the appearance of an occupier's tax." An open transfer of local taxation to landlords would, moreover, remove "the agitation and dispute in vestries arising from the unfounded belief of occupiers that they are affected by rates, when, in fact, they are not affected."¹ It will be necessary to recur to these assertions later, because of the successful opposition of the writers to the then existing exemptions to poor people. Here it seems hardly necessary to discuss the position taken up by the commissioners. They advanced no reasoned proof of their theory, which was directly opposed to the scientific teaching available in their day (Adam Smith, Ricardo, Mill), and it is therefore impossible to controvert them by attacking their reasoning. What they relied on was history and the Act of Elizabeth, and this aspect of the question has been fully considered.

Modern adherents of the payment by the landlord theory seem also to rely on historical evidence. Thus Sir Robert Giffen, in discussing "Taxes on Land,"² classes the following as land taxes:—

The English land-tax ;

The French land-tax (*contribution foncière*) ;

English local rates ;

while he leaves out of consideration the following:—

The French local rates and other rent-taxes on occupiers ;

The English inhabited house-duty.

¹ *Loc. cit.* p. 94, for this and above quotations.

² *Essays in Finance* (first series).

To this view Sir Robert adhered in his evidence before the Royal Commission. He maintained categorically (1) that "rates on house and trade premises are deductions from property in the nature of a rent-charge;" and (2) that "the inhabited house-duty is a consumption tax like customs- and excise-duties."¹ Such a position is unscientific, for political economy recognises no fundamental distinction between a national and a local house-duty. The argument is also illogical. Even granted that rates were intended for a tax on real property, can any one contend that mere historical origin is capable of making a tax paid by occupiers in England (local rates) different from the identical tax paid by occupiers in France (*contribution mobilière*); or that supposed historical origin can impart to English rates and English inhabited house-duty two completely divergent destinations, namely, in one case to the owner, in the other to the occupier? No sensible man can advance such a doctrine with the intention of appealing to our reason. We are compelled to seek for some explanation outside of science and truth for the continued existence of the payment by the landlord theory. This explanation we find in party politics.

The payment by the landlord doctrine is the foundation of the famous Hereditary Burden theory. A particularly clear statement of this theory is given by Sir Robert Giffen:—²

We need only ask ourselves (says the great statistician) what

¹ *Volume Memoranda*, etc. (C. 9528 of Session 1899), p. 96. (In future referred to as *Mem.*)

² *Essays in Finance* (first series), p. 247; "Taxes on Land."

the effect would be of any such reduction of rates as the principles of the anti-rate agitators point to. Consequences are very often a test of principles, the logical result proving the groundlessness of the plea. Grant that certain rates, viz., poor and police rates, amounting to about £11,000,000, are thrown on the Consolidated Fund, as the most eager reasoners of the party contend, or that they are reduced one-half. . . . What would be the result? It is not difficult to see that in the former case some people would have £11,000,000 a year, and in the latter case £5,500,000 a year more than they had before.

Possibly it would not all go to the so-called owners of property, for the occupiers would gain where they are dealt with on tenant-right principles; but it may be treated practically as a bonus to owners, and, as such, it is of magnificent dimensions. In the one case, at thirty years' purchase only, it represents a capital of £330,000,000, and in the other of half that amount—all to be transferred to a single class by a few lines in an Act of Parliament!

Sir Robert Giffen's method of proving the groundlessness of a plea by logic has found a thousand imitators. Mr. Williams, for instance, only the other day, capitalised at $2\frac{3}{4}$ per cent, and calculated the "free gift" at £520,125,000.¹ Unfortunately, this theory contains the material for a valuable party principle. There is a class of politicians immortalised in English fiction by the names of those inimitable Tories, Mr. Taper and Mr. Tadpole, who consider the end of political science to be achieved when you discover a good cry. "The Hereditary Burden on the Owners of Land" is obviously a cry of the very choicest quality. The bare idea of submitting to new taxation in order to provide a free gift to the landlords of the country is justly calculated to inflame the

¹ *Local Taxation* (King and Sons), p. 15.

passions of electors. The belief is one to work magic with, and no wise politician would lightly abandon it. The cry has been adopted in the party platform; it is a plank; and in the technical terminology of politics a plank is called a principle. To reason with a politician against any of his principles would be quite futile. It has been well said of such discussions: "The most convincing logic, the most unanswerable facts, are listened to with a scepticism which no powers of persuasion can remove. On the other hand, the most transparent fallacies are accepted and applauded with a liberal and accommodating faith, for which no imposture is too extravagant." The Hereditary Burden theory, moreover, is not only a party principle, but a party asset, and who will allow his assets to be depreciated? One can only point out that while votes may be gained by a cry so peculiarly fitted to delude the unthinking, the Hereditary Burden theory does harm to no one except to ratepayers themselves, for, by placing a veto on reform, it perpetuates the most iniquitous system of taxation in Europe.

As regards ordinary men, belief in the Hereditary Burden theory is strictly confined to election time. The date for the collection of local rates comes round, and the parliamentary elector finds himself confronted with the indisputable fact of making cash disbursements. The impassioned oratory of his representative at Westminster is forgotten. The loss of hard cash cannot be explained away, and as to who it is that bears the burden, there is probably no idea more firmly fixed in the mind of the general community than that rates are paid by rate-payers. Let us

consider some evidence of the existence of this belief. "The grievances of rate-payers" is a phrase on everybody's lips, but it becomes ignorant agitation if it be true that we deduct our rates from the rent we "offer" our landlord. The official classification of local rates as direct taxes (collector's point of view), namely, taxes which are paid by those who are intended to bear the burden, becomes absurd if we accept the view that the rate-payer is supposed to transfer his rates. The exemption given from all times to "property" which has no tenant, but is standing empty, proclaims aloud who is intended to be taxed by rates. The freedom from rates conferred on churches, voluntary schools, volunteer and militia corps, scientific, literary, and artistic societies is quite uncalled for if the owner of the property is the person who pays. The partial exemption by classification given to the long list of occupiers who use land for certain purposes, detailed in the Report of the Royal Commission,¹ is equally superfluous. The exemptions and abatements given, most properly and humanely on appeal on the ground of poverty, these also would be the charity of stupid sentiment, nothing more. Above all, the alleged importance to a system of local government of interesting the rate-payers in economy, by making them feel the pressure of taxation, this first principle itself becomes a chimera if rate-payers do not pay after all. It would be a matter of considerable indifference to local voters whether rates were high or low if they simply deducted them from their rent. Indeed, the great reform of the nineteenth century, which professed to create a representative system of govern-

¹ Page 5.

ment in counties and parishes by placing control in the hands of occupiers,—this whole administrative structure is built on the sand if rate-payers are not affected by local taxation. In short, no one believes that he pays no rates. The sweet simplicity of the total payment by the landlord theory, and the deduction from property in the nature of a rent-charge is opposed to science, common sense, and experience. It exists only as a party principle.

Of a very different nature is the next answer we have to consider, namely, the answer of the economic theorists. In some respects it is a comparatively simple matter to give an account of this part of the subject. The scientific answer has been prepared by trained experts who have studied the question; their reasoning is nothing if not logical—indeed most of the points in the discussion have long been settled beyond all dispute. On the other hand, extreme difficulty arises owing to the fact that the scientific arguments have been taken up by people who do not understand, or even desire to understand them, but who make references at large to the laws of political economy in order to give an appearance of authority to the views they put forward, now on the side of landowners, now on the side of election agents. Harrangues of this nature are familiar to all of us, while comparatively few study economics. One finds, therefore, that the most gross misconceptions are prevalent regarding the scientific answer, and this circumstance makes it necessary to give some explanation of the nature and scope of the economic theory of incidence before attempting a popular exposition.

In the first place, attention must be drawn to the

point of view from which economists approach the question. If we leave Mr. Cannan out of consideration, who accepts the traditional interpretation of the Act of Elizabeth, and regards rates as imposed "on real property,"¹ we find that history is not allowed to influence the scientific argument. A tax on rent levied on the occupier will obviously have certain definite effects, no matter whether several centuries ago its inventors are supposed to have intended it to fall in this manner or in that.² The incidence of rates is therefore treated scientifically as a part of the general theory of the diffusion of taxation. As Professor Edgeworth expresses it: "The economist has not to construct a special law for the taxing of houses, any more than the physicist has to construct a special law for the tumbling of houses."³ The same idea is contained in Adam Smith's statement that a house-tax is "in every respect of the same nature as a tax upon any other sort of consumable commodities."⁴ It is a very curious fact that scientific discussions regarding the incidence of rates should commence with the observation that such taxes are like any other duty on articles of consumption, and that nevertheless in practice no one treats rates as if they were like custom- and excise-duties. When a beggar who sweeps a crossing chews a quid, people assume that the tobacco dealer has made the beggar pay the duty ;

¹ See Mr. Cannan's evidence (*Mem.* p. 169), where a reference is also given to the "History of Local Rates in England."

² Had this book been addressed to experts, the historical inquiry might have been left out, as far as the discussion of incidence is concerned.

³ *Econ. Journ.* vol. x. p. 183.

⁴ Book v. chap. ii.

when the same beggar goes home and is taxed on his rent, people believe that he will compel the landlord to pay for him, or at least to pay a share. What is the reason for this contradictory position? Simply that people reject the scientific answer as to the incidence of customs- and excise-duties, while they have an almost superstitious reverence for that answer when applied to a house-duty. The assumption that the beggar alone is affected by the duty on his quid is most unscientific. Were a Royal Commission appointed to take expert evidence on the incidence of customs- and excise-duties, and were the economists to answer the questions with the ingenious elaboration they bestowed on the case of rates, a conscientious public would be plunged into the same inextricable confusion as now clouds their ideas on the subject of local taxation. But politicians require a simple answer.¹ They consequently make the assumption that customs- and excise-duties are paid by consumers, and, whenever necessary, they change about the rates of impost without troubling about the inscrutable mysteries of economic theory. But when the practical man comes to a duty on houses, he immediately becomes nervous. His supercilious contempt for political economy vanishes, and he is filled with an insatiable longing for the most minute answer which the refinements of abstract science can afford. The demand creates the supply, and we have in England a literature on this subject which is overwhelming. Books on the science of finance are practically non-

¹ This chapter was written before the introduction of the corn-duty. It was advisable to adopt the goodness-knows theory of incidence for the corn tax.

existent in England, but on the incidence of local rates there are libraries. In other countries such discussions hardly exist. Wagner, for instance, in his voluminous *Finanzwissenschaft*, disposes of an inhabited house-duty in a few words, indeed in as few words as the ordinary Englishman disposes of his own national inhabited house-duty. But give this self-same duty the magic name of "local rate," and our attitude of mind changes from indifference to the keenest excitement. The Royal Commissioners set examination papers on incidence to all the economists in the country before they felt competent to deal with local taxation. They asked, among other things:—¹

Question 5.—Can you offer any suggestions which would assist the Commission in determining the question of the real incidence of taxation as distinguished from its primary or apparent incidence?

Question 6.—Could you, for example, state your view as to the real incidence of—

- (a) The inhabited house-duty.
- (b) Rates levied on houses and trade premises.
- (c) Rates levied on agricultural land.

The economists entered into their task *con amore*, and produced answers which take up about two hundred closely printed folio pages. But as these dissertations are founded on the assumption that the incidence of a house-duty must be similar to the incidence of any duty on an article of consumption, the best practical solution seems to be to proceed on the assumption which we make in dealing with other duties on articles of consumption, and to act as if

¹ A copy of the set of questions addressed to financial and economic experts is given in *Mem.* p. 2.

rates were paid by consumers. If we carefully analyse the answers given by the fifteen experts, it is to be hoped that it may appear possible to accept this solution and to treat rates as we treat customs-duties, namely, according to a theory of incidence which is opposed to political economy. It is the answer adopted by the governments of France and Germany, and it is the only hope of a reformer in England. The payment by the landlord theory is illogical and untenable, and the goodness-knows theory involves the ruin of local self-administration.

It may seem hopeless to advocate a solution of the problem of incidence which is professedly unscientific. In reality, however, a complete explanation is found in the acknowledged nature of political economy. It would be absurd to claim to settle a question of health in a manner contrary to the rules of the science of medicine, or to attempt an undertaking which the law of gravitation proclaims to be impossible. But it is a very different thing to go contrary to the teaching of political economy. Unlike other sciences, economic science is sharply separated from the regulation of practical affairs. Political economy deals with wealth and with the actions of human beings in connection with wealth. Now the motives which influence human beings are numerous and diverse, and frequently even opposed to the unswerving pursuit of wealth. But in order to produce definite statements economists are compelled to make the fundamental assumption that men are actuated by one motive only, namely, a desire for wealth, and that in pursuing this object they are led by perfect knowledge. This peculiarity of his science—a peculiarity which is of great importance

when economic laws are taken as guides in actual affairs—every economist is careful to explain. Dr. Keynes, for instance, whose *Scope and Method of Political Economy* is a work of acknowledged authority, writes in this connection :—

In basing its conclusions on a limited number of fundamental assumptions, it has to leave out of account many circumstances which are of importance in individual cases. That other motives besides the desire for wealth do operate on various occasions in determining men's economic activities is recognised. They are, however, to be neglected, at any rate in the first instance—since their influence is irregular, uncertain, and capricious. On these grounds it is argued that the abstraction whereby the science takes as its principal subject matter an "economic man," whose activities are determined solely by a desire for wealth, is both legitimate and necessary.¹

Bagehot expressed the same idea with his usual clearness :—

Political economists are not speaking of real men, but of imaginary ones ; not of men as we see them, but of men as it is convenient for us to suppose they are.²

Most commonly the nature of political economy is explained by saying that economics is not an art, but a science,³ that is to say, a body of teaching which does not profess to give directions for the conduct of affairs. No one requires to discuss whether medicine and physics are arts or sciences, but with economics it is different: "a sharp line of distinction is drawn between political economy itself and its applications to practice."⁴ Mill and Cairns, for this reason, speak of the science as hypothetical :—

¹ *Op. cit.* p. 15.

² *Economic Studies*, p. 5.

³ Keynes, *loc. cit.* p. 13.

⁴ *Ibid.* p. 12.

Inasmuch as its premises do not exhaust all the causes affecting the result, its laws are only true hypothetically, that is, in the absence of disturbing agencies.¹

It is, therefore, most important to consider whether the solution of a problem as indicated by economics is a result likely to arise in actual affairs. The introductory chapters of every economic text-book dwell on the fact that the degree in which the assumptions forming the foundation of the science correspond to existing facts, varies from case to case. We may get practical problems to which the economic "law" may be applied as it stands in the book, others where the disturbing causes are so numerous that the answer according to pure economics is incomplete and therefore admittedly false. Nothing, however, is more common than for amateurs to accept the hypothetical answer given by an economist under the impression that it is final.

Besides considering the nature of the answer offered by political economy, namely, that it is purely hypothetical, it is also necessary to draw attention to the scope of the scientific answer, for the technical term "incidence" covers a wide ground. There is a popular belief that "incidence" of a tax is the same thing as "payment" of a tax, that is to say, that a person on whom "incidence" falls bears a portion of the payment. Nothing could be more mistaken. The difference will become clear when we examine the scientific methods employed to determine "incidence." Agitators profess the crude doctrine that tenants simply "deduct" their local rates from the rent they "offer" to their landlords, but they do not deign to explain to

¹ Keynes, *loc. cit.* p. 16.

us how the operation is to be carried out. Economists, on the other hand, reason the matter out by tracing all the circumstances of the case, and as a result of this inquiry they arrive at what they call "incidence." Broadly speaking, the "incidence" of a tax on a consumable commodity may be discovered by examining the causes which affect the price of the commodity.¹ To the ordinary man the connection between price and tax is obvious when we confine ourselves to taxes which are "tapped at the source," *i.e.* collected from the dealer. The price of beer to the ordinary man means price proper with duty added. This conception becomes more complicated when the tax is not collected from the dealer, as, for instance, is the case with local rates. It is not so clear, at first sight, that "the price of house accommodation" is rent *plus* rates. Great discussion has centred round this point. People have asserted that ratepayers do not make the mental calculation of adding together rent and rates, that they "do not take rates into account," as it is called. Others maintain that rate-payers do make the calculation, and that to the ordinary mind (rent + rates) is combined to the conception "the price of house accommodation" in the same indissoluble manner as in "the price of beer." It must therefore be observed that for the purposes of science it is regarded as immaterial whether a tax is collected from the producer or the consumer. Under the conditions of perfect competition postulated by economic theory, the effects produced by either method will be the same; the consumer will regulate his purchases with full deliberation, and take a tax "into account," whether he pays

¹ Seligman, *The Shifting and Incidence of Taxation*, p. 3.

it along with the price of the goods, or whether he pays it separately. A tax on a consumable commodity, therefore, being, in the first place, an addition to price, the economist inquires: What will be the effects of this addition? To answer this question he has at his disposal a body of recognised reasoning. The theory of deduction would be admirably suited to a condition of society where the good old rule maintained that he should take who has the power, and he should keep who can. In civilised communities people have recourse to bargaining. A rise in price is met by consumers by a reduction in demand, while producers, if they can, retaliate by a shortening of supply. This is the point of view from which an economist approaches the question, and his inquiry into the "incidence" of a tax is nothing more and nothing less than a study of the probable effects which a rise in price produces on demand and supply. The numerous popular misconceptions which have gathered round the meaning of the technical term "incidence," induced one of the experts consulted by the Royal Commission to suggest that the term "effects" of a tax should be substituted for "incidence."¹ Mr. Cannan's proposal has since been adopted by Professor Edgeworth.² But the reader will realise that an inquiry into the "effects" of a local rate may give us

¹ *Mem.* p. 166.

² *Econ. Journal*, vol. x. p. 172. The term "effects" is itself open to objection. Rates may have the effect of injuring the health and the morals of occupiers by making them live in too small houses. This effect cannot be included under "incidence" (see Seligman, *The Shifting and Incidence of Taxation*, p. 4). If "effects" is to supersede "incidence," the term will have to be defined more closely. Professor Edgeworth restricts it to "those effects with which the economist is concerned" (*loc. cit.* p. 172).

a much wider result than is necessary for answering the practical question: Do landlords pay the rates or part of the rates? The difference between the popular question and the scientific answer will be appreciated if we consider the definition of "incidence" used by Professor Edgeworth, and illustrated by the example of a tax on bicycles.¹

The effect of a tax on bicycles . . . reaches not only those who use bicycles and benefit because other people use them, but also those who would have used bicycles, or would have benefited by other people using them, if the obstruction of the tax had not intervened. According to the present writer's (Professor Edgeworth's) usage, the effect would also reach the landlords of Coventry, so far as their rent might be reduced by the check on the production of bicycles.

The "incidence" of a tax on bicycles thus reaches not only the bicyclist, but also people who are prevented by the tax from riding bicycles and, so far as it reduces the consumption of bicycles, its effects also reach landowners in Coventry. It by no means follows, however, that the cash paid by the bicyclist to the tax-gatherer is any the less on account of these various effects, and that part of the bicyclist's payment is borne by people who do not ride, etc., etc. In other words, the sum-total of the effects produced by a 5s. tax may be 20s.—if they assume that these effects can be calculated and expressed in money—but the transaction is not conducted as follows:—

¹ *Econ. Journal*, vol. x. p. 172 (note 1).

Tax paid by bicyclist	5s.
Less sums deducted by him :—	
From people who do not ride	1s.
From people who would have benefited if the above had ridden.	1s.
From landlords at Coventry.	1s.
	<hr/> 3s.
Net sum paid by bicyclist	<hr/> 2s.

A person may have to bear the “effects” of a tax without contributing towards the payment. The case of a tax on bicycles does not perhaps illustrate the process of scientific reasoning very clearly,¹ and as the matter is of supreme importance a more common example may be taken, say a duty on the consumption of beer. To make the analogy more close to a house-duty, we may suppose that the duty is collected from the consumer and not “tapped at the source.” We may also assume that there are three classes of persons to consider: (a) consumers, (b) brewers, (c) owners of land specially suited for brewers, but all of which has not been disposed of to brewers. The effect of a duty will be as follows:—

(a) The consumer will have to pay more for his beer (price and also tax). This increase in his outlay on beer will induce him to restrict his consumption. He will therefore suffer doubly: (1) by paying more for such beer as he does drink; (2) by drinking less beer than he otherwise would.

(b) The brewer will suffer by the diminished

¹ The effects of a reduction of demand cannot be traced so well in the case of bicycles as in the case of an article of which each individual can consume a smaller quantity without giving up consumption altogether.

demand for beer. For the moment he may have to lower his prices. His machinery, etc., may give the best return if he continues his former output and accepts a reduction of profit. But in the long-run capital invested in brewing must yield ordinary returns. New capital will, therefore, be repelled from the trade, and diminished production will enable brewers to go back to former prices and again to earn normal profits. In the long-run, therefore, brewers will not be affected at all.

(*c*) Owners of land specially suitable for selling to brewers (on account of good water-supply, etc.) will suffer by the tax. The consumption of beer is less than it would be if no tax existed, new breweries are not built, existing breweries are not extended, the demand for the land in question is lessened, and what remains of it has to be sold for purposes where its peculiar advantages go for nothing—say to a glass manufacturer.

Such, broadly, is the accepted reasoning regarding the economic effects of a tax on a consumable commodity. The effects are not restricted to the consumer; when the tax is first imposed a great number of people will be affected. But in the long-run the owners of land will be the only fellow-sufferers. Land which would have fetched a high price from a brewer could not be sold to a brewer. This harm done concurrently to others does not, however, bring relief to the consumer of beer. The "incidence" on the landowner consists in his loss through the decreased demand for land of a particular kind on the part of those who produce the taxed commodity, it does not consist in his "paying a portion of the tax," in the popular conception of the

term, *i.e.* in relieving the consumer of a portion. Incidence is not the same as payment. The duty is paid by the consumer to the last penny, because there is no one to whom he can transfer it. He cannot (in the long-run) transfer it to the brewer, because brewers will insist on making ordinary profits; he cannot under any circumstances transfer it to landowners, because the price of beer exerts no influence on the price of such land as is purchased by brewers. Indeed the whole question has been raised, "whether an effect of this kind—detrimental to a certain class, without any corresponding benefit to the Exchequer—can properly be described as the *incidence* of a tax."¹ The difficulty which arises explains the eagerness with which the new term "effects" has been taken up. "Effects" includes everything.

Having indicated the two principal directions in which special care must be exercised before applying the scientific solution to the practical problem before us—viz. (1) that the scientific answer is only hypothetically true, (2) that the technical term "incidence" has a very wide scope—we may examine the subject in detail. It is customary to consider separately the cases of taxes apportioned to agricultural rent and non-agricultural, and to the rent of dwelling-houses and of trade premises. It is also convenient to follow this practice. Nothing can be more mistaken than to regard local taxation as composed of one single tax, namely a tax "on real property." The nature of the impost on the occupier varies with the purpose for which the real property occupied is used. The expert evidence submitted to the Royal

¹ *Mem.* p. 132 (Professor Edgeworth).

Commission is voluminous, but it may be broadly dealt with, thanks to the critical analysis which has been prepared by Professor Edgeworth.¹ The public are greatly indebted to Professor Edgeworth. No one can appreciate his work more than those who have studied the evidence for themselves, perhaps spent days in making a synopsis for their own guidance, and then found their own labour superseded by the perfect lucidity of the articles in the *Economic Journal*. The reader is also reminded that "onerous rates" are being discussed, namely, rates which confer no measurable benefit.² The order of discussion, then, is as follows:—

- A. Local Inhabited House-Duty.
- B. Local Duty on Trade Premises.
- C. Local Duty on Agricultural Rent.

A. LOCAL INHABITED HOUSE-DUTY

The older economists (Adam Smith, Ricardo, and Mill) drew no distinction between a house-duty which is uniform all over the country (an imperial tax), and a house-duty which varies in amount from district to district (a local tax). It is convenient to consider, in the first place, the incidence of a uniform house-duty, and after this has been done to introduce the distinction which has been made of late, and examine the complications arising from the fact that the tax is higher in some places than in others. In practice a uniform house-duty exists in our national inhabited house-duty.

¹ *Econ. Journ.*, June, September, and December 1900.

² See p. 10.

1. *A Uniform House-Duty*

The scientific answer regarding the effects of such a tax is as follows, quoting Professor Edgeworth :—¹

“An *ad valorem* tax on the gross rent which the occupier pays will obey the general law which governs taxes of consumable commodities.”

(a) “The occupier will suffer not only by paying more for the house accommodation which he continues to use, but also by foregoing part of what he would have used but for the impost.”

(b) “The capitalist building owner will not (in the long-run)² be damnified at all.”

(c) “The ground landlord will be damnified by the relaxed demand for sites.”

As regards the general net result to be drawn from this answer, some of the experts expressed the opinion that, to all intents and purposes, no one is appreciably

¹ *Econ. Journ.* vol. x. p. 183.

² “In the long-run” is a term which involves a great deal. Infinite care has been devoted to the discussion of the differences likely to arise from a tax when old houses have to compete with new houses, and decaying localities with flourishing ones. The reasoning is similar to that employed as regards the effects of a beer-duty on brewers. A practical politician cannot let himself in for discussions whether a beer-duty may fall “finally” on brewers with old machinery as compared with competitors who have the latest German and American contrivances; neither can he consider what would occur if the public taste were to turn from pale ale to stout. Messrs. Bass & Co. might in that case suffer as compared with Messrs. Barclay & Perkins, just as landlords in an old-fashioned quarter may suffer as compared with landlords in a new-fashioned one, but these are questions for theoretical financiers, not for Chancellors of the Exchequer. If science demands such absurdities as that there should be one rule for Messrs. Bass & Co. and another for Messrs. Barclay, then science must be disregarded. Probably, however, these niceties are misplaced in true finance. Unless the change in taste or fashion can be attributed to the tax, it seems illogical to describe the pecuniary loss as an “effect” of the tax.

affected by a uniform house-duty except the occupier. Thus:—¹

Rt. Hon. Leonard Courtney.—Speaking generally, I think the inhabited house-duty is borne by the occupier.

Sir R. Giffen.—The duty is a consumption tax, like customs and excise-duty, and not incidental to property.

Mr. Blunden.—The real incidence of this tax is normally and generally upon the occupier . . . the tax has no more influence on rent than the income-tax has on profits and wages.

Professor Bastable.—Broadly speaking, this tax falls finally as well as immediately on the occupier. So far as the demand for building is reduced by it, the ground landlord is affected, but this influence must be trifling.

Other experts—Professors Sidgwick, Marshall, and Edgeworth, etc.—adhere more closely to the strictly scientific answer, and lay emphasis on the effects of the tax on builders and ground landlords. A brief statement of this stricter answer has been given above in Professor Edgeworth's words. The solution is deduced from the probable effects which a house-duty will produce on demand and supply, and the general method of argument has been indicated a few pages back on the hand of the example of the beer-duty. It has also been observed that much discussion has taken place as to whether occupiers "take the house-duty into account," that is to say, reduce their demand owing to the increase in price. If we assume that a number of people do act in this manner, we have next to ask: What will be the result? The answer of the economist is: The same as in the case of the beer-duty. In applying this reasoning in detail, it seems desirable to adopt a device. Popular misconception is rife on the subject of local taxation. The historical theory

¹ See *Mem.* Answers to Question 6 (a).

has created a belief that rates are taxes "on real property," and that somehow or other they ought to be paid by landlords. But the connection between rates and landlords is imaginary. The house we occupy is our local declaration of income, and a house-duty is the tenant's income-tax, with which the landlord has nothing to do. It seems excusable to use some other word than "rate," and the necessary term would be found in some outlay connected with a house which rises automatically if we take a larger house, and falls if we take a smaller one. The word may be found in house furniture. For "local rates," that is to say, outlay on education, police, poor-relief, etc., let us substitute "outlay for furniture." The parallel is not complete,¹ but the popular mind is at least not imbued with the belief that somehow or other landowners have something to do with paying for their tenant's furniture. The effects produced by the necessity of furnishing houses will be as follows:—

(a) The consumer will have to pay more for his house accommodation, namely, for houseroom and for furniture. This will induce him to restrict his consumption. The result will be twofold: (1) he will have to live in a smaller house; (2) he will have to pay more for such accommodation as he continues to use.

(b) The speculative builder will not be affected at all. He must get rents high enough to yield him ordinary profits. A sudden necessity for more elabo-

¹ The parallel is not complete, because outlay for furniture is "beneficial," while the supposed rate is "onerous." According to accepted reasoning, "beneficial" outlay does not reduce the demand for house accommodation, and it is here assumed that it does, namely, that having to furnish checks consumption of house accommodation.

rate furniture might decrease the consumption of houseroom and compel speculators to lower rents, thus incurring a loss of profit directly due to the increase in the cost of furnishing. But in the long-run¹ the builder must get ordinary returns.

(c) The owners of land suitable for building will suffer from the necessity of occupiers furnishing their houses. The demand for building space will be less, and the land must be let for other less profitable purposes.

The "effects" of having to furnish are, therefore, over long periods divided between two sets of people, tenants and ground owners; but it is obvious that the outlay on furniture is paid by the tenant. The case of a house-duty is similar. To repeat the quotation from Professor Edgeworth: "The occupier will suffer not only by paying more for the house accommodation he continues to use, but also by foregoing part of what he would have used but for the impost." "The ground landlord will be damnified by the relaxed demand for sites." A sharp distinction, therefore, must be drawn between the technical term "incidence" or "effects" and the agitator's cry of a deduction. Tenants live in smaller houses, but on such accommodation as they continue to use they pay the duty. Ground owners are damnified, but their loss consists in the harm done by the tax to the occupiers of dwelling-houses. The consumption of house accommodation is checked, and as a consequence less building space is demanded. Professor Edgeworth has indeed in a passage already quoted raised the question whether the harm to landowners should be described by the term "incidence."

¹ In regard to the term "in the long-run," see footnote on p. 133.

Before the new expression "effects" had been invented the Professor wrote in the memorandum which he prepared for the Royal Commission :—¹

The ground-landlord suffers through slackened demand for sites. But what the Exchequer loses through the diminished use of houses is not in general equal to what the ground landlords lose through the diminution of demand for sites. Nor would the equality be of any fiscal significance, since what is lost by the ground landlords is not gained by the Exchequer. Indeed the question has been raised whether an effect of this sort—detrimental to a certain class, without any corresponding benefit to the Exchequer—can properly be described as the *incidence* of a tax.

Such is the strictly scientific answer regarding the payment of a *uniform* house-duty.

But while the above is the only possible result which can be obtained if the question is reasoned out as affected by the operation of demand and supply, there can be no doubt that some experts have used what Professor Edgeworth calls ² "a certain terminology," which must be regarded as "infelicitous," because it has led "the vulgar"—still quoting Professor Edgeworth ³—to imagine that the tenant can make an actual transfer of a portion of a house-duty on to ground landlords. The most explicit, but by no means the only instance of the use of this infelicitous terminology occurs in Mr. Courtney's evidence :—

So much of the house-duty as was proportionate to this [ground] rent, and, so to speak, attached to it, would be ultimately borne by the person entitled to receive this rent.⁴

¹ *Mem.* p. 131.

³ *Ibid.* p. 192.

² *Econ. Journ.* vol. x. p. 189.

⁴ *Mem.* p. 86.

It certainly is a misfortune that "the vulgar are apt to take words literally,"¹ and treat the sayings of economists with a degree of confidence which is only met with ridicule; but there is every excuse for "the vulgar" if they failed to distinguish between the expert's terminology, viz., "the ground-landlord bears so much of the house-duty as is proportionate, and, so to speak, attached to his ground-rent," and what we find is the expert's meaning. Professor Edgeworth fortunately disposes of the vulgar error, although in somewhat technical language.² Those interested will find a simpler statement in the Professor's evidence before the Commission.³ A layman who desires to appeal to laymen may perhaps attempt to explain the matter more popularly.

HOW COULD A DEDUCTION BE MADE

We find that the infelicitous terminology of certain experts has given rise to a belief that there is the sanction of science for the assertion that tenants deduct not the whole of their rates from rent paid to owners of real property, but that they deduct a portion applicable to the value of the ground on which the buildings are erected. Now the main point in regard to the deduction theory is the practical consideration of how it can be carried into effect. The operation will certainly be resisted, and the tenant's success or failure will depend on the power he has over the owners of building land. Let us take the case of a tenant who

¹ *Econ. Journ.* vol. x. p. 192.

² *Ibid.* vol. x. pp. 189-193.

³ *Mem.* pp. 129 and 131.

takes the house-duty "into account." Let us also assume that this man has made up his mind to spend £50 on his house, and no more under any circumstances. He finds that if he goes into a house rented at £50, he will have to pay duty amounting to £10.¹ On the assumption made this man will consider that if he were to spend £50 on rent his outlay for house accommodation would be £60. What will such a man do? There are two courses open to him:—

1. To take a smaller (or less well situated) house, and bring down his outlay to £50.

2. To go to the landlord of a £50 house and force him to let it for £40 odds, thus bringing his total outlay to the same sum of £50.

The idea that the tenant has a prospect of success if he boldly pursues this second course is founded on the belief that house-rent is determined in the same way as farm-rent,² an assumption which underlies Mr. Goschen's reasoning in his report of 1870.³ This belief—a most mistaken belief—must be examined.

The theory of rent as applied to farming is so well known that, for the present purpose, which is merely of illustration, it may be briefly stated. There cannot be the slightest doubt that theoretically the farmer has power to deduct from the rent⁴ he pays to his landlord such portion of his rates as is in excess of

¹ In practice this case would correspond to the circumstances arising in regard to existing houses, the duty on which had increased at the same time as the tenant's lease expired.

² Mr. Blunden (following Ricardo) has treated this question in a very clear manner in the *Economic Review* of October 1891.

³ *Ibid.*

⁴ It may be assumed at present that the return yielded by improvements is a quasi-rent.

the rates levied on other pursuits.¹ Before a farmer offers for a farm he makes a calculation of what profits are likely to be made and what rent he will be able to afford, so as not to reduce his profits below what he considers reasonable. The landlord has no choice but to accept the farmer's offer, because the supply of land cannot be reduced in the manner in which we saw that the supply of capital in the beer trade can be reduced. There is also no such thing as "holding up" in the case of agricultural land. Farm rents, therefore, are fixed by estimates made by farmers, and if the local taxation levied on farmers is heavier than in other employments, it follows that farmers should take this fact into consideration in making their offer, and it also follows that they have power to force the landlord to accept a diminished rent.

This theory for the fixing of agricultural rent cannot be applied to the determination of ground-rent and still less to house-rent. Agricultural land is an instrument of production, while dwelling-houses are "products of the land,"² and articles of consumption. The circumstance which gives farmers a theoretically absolute power over their landlords is commercial competition, expressed in the economic law that in the long-run profits in various employments tend to

¹ It seems formerly to have been believed that a farmer would deduct *all* his rates from his rent. Obviously this is a fallacy, for since the force which compels farmers to shift their rates is the tendency of profits to equality, they will not endeavour to free themselves from burdens to which they would be subject if they transferred to some other pursuit. (Mr. Blunden was the first person to controvert the belief that farmers transfer all their rates. He also pointed out that a farm-house should be regarded as an "inhabited house" *Local Taxation*, p. 41.)

² *Mem.* p. 131.

equality. Popularly stated, the theory of agricultural rent is that farmers make ordinary profits and pay over to their landlords anything that may be over. Agricultural rent equals surplus profits. If a farmer is taxed more than other people, he has less surplus profit and pays less rent; if his taxes are remitted, he has more surplus profit and pays more rent. A rule-of-three calculation settles the question. In the case of house-rent, however, no similar immutable law can be applied, even theoretically. In the case of agriculture, further, excessive rent involves loss of legitimate profit and diminished means of livelihood; we consequently see farmers making an "offer" for a farm. With house-rent all this is different. We see the house owner, in the first place, offering his property at a fixed price. The tenant again, instead of having the amount of his rent determined by definite considerations, one might say having it determined by circumstances beyond his control, finds himself at liberty to consult his personal inclinations. He may live in a cheap house and spend money on other things; he may take an expensive house and economise in other directions. No law can be laid down for fixing a person's expenditure on house-rent. One cannot, on the analogy of surplus profits, say that tenants will first satisfy all their ordinary wants and spend what they have over on rent; that rent equals surplus cash. The very poorest spend one-third of their income, and even more, on house-rent; this sum cannot be surplus cash.

But if householders are to be invested in imagination with the absolute power of the farmer, it is necessary to supply them with some hard and fast

measure which determines their expenditure on rent—something almost beyond their own control, and certainly beyond control of landlords. The advocates of the theory that tenants can do to their landlords as it may seem good unto them, have accordingly imagined such a doctrine. If we examine their arguments we find that they are founded on a theory which may be called the Rent Fund Theory.

As applied, in the first place, to existing houses, the rent fund theory takes for granted—

(1) That *every* person has a *fixed portion* of his income set aside for outlay on house accommodation.

(2) That every person includes house-duty in the term house accommodation.

The clearest statement founded on this rent fund theory is perhaps given by Mr. Cannan. He was asked by the commissioners what would be the effect of allowing tenants to deduct local rates from their rent, and he replied categorically :—

If occupiers were allowed to deduct either rates, or *the cost of getting their hair cut, or any other expense*, from their rents, then their rents would be that much higher.

If they were not allowed to deduct the income-tax [landlord's income tax !], their rents would be that much lower.¹

From this grotesque rent fund theory it is easy to argue that once tenants are accommodated with houses, and have gone to the limit of the predestined proportion of income devoted to the fund, then no possible change of circumstances can affect them, but the necessary assumptions are so extravagant that

¹ Mr. Cannan's answer to Question 12 (*Mem.* p. 171). The landlord's income-tax only passes through the hands of the tenant on its way to the Inland Revenue.

they only require to be stated in order to be dismissed. Going back to the example of our friend with his £50 available for house accommodation, we must assume that a local rate will make him do the same thing as he does on account of the beer-duty, namely, restrict his consumption. If he wants to spend less on beer, he must drink less; he cannot order a glass of beer, and when he is asked for payment deduct the duty. Similarly, if he wants to spend less on house accommodation, he must go into a smaller house.

The deduction theory is not only put forward in connection with existing houses, but also in regard to new building operations. The capitalist builder is obviously not affected by inhabited house-duty in any respect. When he takes over land for building it ceases to have a tenant, and there is, therefore, no liability; when the house is finished there is also no liability until a tenant appears on the scene. In order to apply the theory that a deduction takes place, the adherents of that belief find it necessary to assume that the builder, knowing that the tenants, when they come, will deduct their inhabited house-duty from the rents they pay, in his turn compels the ground-owner to pay the future house-duty. This point can best be dismissed by considering the circumstance which determines the price paid for building land, namely, advantage of situation. An acre in the City is more valuable than an acre in a Yorkshire village. Ricardo pointed out,¹ and he is followed by Mill² and others, that land in the country will not, as a rule, fetch more for building

¹ *Principles*, chap. xiv. ("Taxes on Houses").

² *Ibid.* Book v. chap. iii. § 6.

than for agriculture, so that a duty peculiar to inhabited houses can certainly not be transferred to the ground owner. In towns land fetches very high prices, and the whole point, therefore, lies in this, whether a uniform house-duty—levied equally in all localities—will decrease the prices paid for the relative advantages of town over country, and of central districts over suburbs. As this is impossible, it follows that a uniform house-duty cannot be transferred to the owners of building sites. Mill assumes the case of a tax levied equally according to area of building land, and shows that such an impost must be paid entirely by the occupier, because it leaves unaffected the relative advantages of situation, and therefore the values of sites.¹ An inhabited house-duty is levied according to the rental value of the structures to be erected, which may be villas, or blocks of flats, and a disturbance in the relative prices paid for sites is also here impossible.²

¹ *Principles*, Book v. chap. iii. § 3.

² Imagine two sites, one of which is £100 a year more valuable than the other (say £200 and £300 respectively), and imagine that buildings of equal annual value (say £500 each) are erected on these sites, making the "houses" worth £700 and £800 a year respectively. Let a house-duty of a shilling per £ be imposed. The tenant in one case will have to pay £735 (rent *plus* duty), in the other £840. But the advantage which one house possesses over the other is only worth £100, while with the tax the tenant of the more valuable house would have to pay £105. Argued that he will deduct £5 from the rent he offers.

This argument was stated by the Dutch economist, N. G. Pierson. Against such a view Professor Edgeworth argues (*Mem.* p. 130, note). "Mr. Pierson deduces this conclusion from the assumption that the difference between the rents of the two houses may be expected to be the same after and before the imposition of the tax (or, at least, not greater after than before). This assumption would be appropriate if two similar houses dissimilarly situated could be regarded as two units of the same commodity. But I submit that

In short, the belief that any one but the tenant can be made to pay a uniform and old-established inhabited house-duty is founded on fallacies, although the popular error has certainly been fostered by the terminology used by some experts. It is highly satisfactory to find that Professor Edgeworth, in stating the scientific theory more carefully, is able to reconcile the reasoning of the infelicitous experts with his own, and to prove that the discrepancy is merely a matter of words. An expression such as "that portion of the tax applicable to site value," not only gives colour to the deduction theory, but it gives most explicit sanction to the belief that the landowner's burden is measured by the value of his land (*i.e.* site). There is not the slightest foundation for this assertion. Such a result could not arise under any circumstances. If the builder had power to deduct the duty on the contemplated houses, he would deduct the whole, that is to say, the duty applicable to the rental of the entire house, not only an imaginary equivalent rate per £ on the value of the land—just as farmers theoretically deduct their whole rates from economic rent, and not "that portion applicable to economic rent."

If the "effects" on landowners (which do not involve payment of a tax) are to be measured at all, this can only be done by measuring the extent to which occupiers reduce their consumption of house

the two houses ought rather to be regarded as *different quantities of commodity*, analogous to the quantities of barley produced by the outlay of the same capital at the margin and on a highly rented site. There is no 'anomaly' (term used by Mr. Pierson) in the supposition that a difference between the prices paid for those two quantities of produce should be increased by the tax. It is the received theory as stated, *e.g.* by Mill (Book v. chap. iii. § 3)."

accommodation. If rates had never existed, people might be living in larger houses, and more land might be built on. In this alone lies any importance which may attach to the question: Do tenants take the rates into account? Tenants cannot make a calculation for the purpose of deducting rates from their rent, but they may do so in order to determine whether to live in a smaller house. A discussion of such "effects" of a house-duty on landowners is not really pertinent to the present inquiry, for we only wish to know whether landlords *pay* rates; still, the matter may be disposed of now, while the facts are fresh in the reader's remembrance. In selecting an expedient for raising revenue it is not only important to know who pays the tax, but also what will be the harmful consequences, let us say the "damage" inflicted in addition to the pecuniary burden. The inquiry as to "who pays" allows us to form an opinion regarding equity; the inquiry as to "who is damaged" enables us to give a verdict whether the tax is good or bad. Leaving the question of equity apart, it is usually considered that a house-tax is the very worst possible tax, because it restricts the consumption of a commodity which is necessary for the physical and moral wellbeing of the people. Some people have defended the duty on alcohol because it is a penal tax; for a similar reason a tax on houses should be condemned. An inquiry seems to indicate that the people most "damaged" by the house-duty are those who may be described as the higher working class. Adam Smith pointed out that the very poorest are unable to take a house-duty into account. These people already live in the most miserable manner which is possible, and

are unable to diminish their consumption any further.¹ Better-to-do classes, again, regard a good house as a necessity, and rather economise in other directions.² Between the two classes of very poor and rich lie the people who take the duty into account and live in smaller houses.³ How far the tax may reduce demand even here it is impossible to hazard the vaguest conjecture. Already Adam Smith recognised that this point evades any attempt at measurement, for the tenant may reduce his consumption by the whole impost, or only by part, according to his individual taste. To summarise: the "damage" done to landowners is equal to the "damage" done to tenants through the restriction of demand, and as the "damage" to tenants is not calculable, neither is the "damage" to landowners. One thing, however, must always be remembered. Such discussions are of social and not of financial importance. The "damage" done incidentally by a tax does not affect the distribution of the payment. Let certain classes of tenants take the house-duty into account as much as they like, or as little as they like, they cannot free themselves from the tax proportionate to the size of the house which they eventually elect to occupy.

A. LOCAL INHABITED HOUSE-DUTY

2. *A Varying House-Duty*

We must now deal with the fact that the local inhabited house-duty is not uniform all over the country,

¹ Book v. chap. iii.

² Seligman, *Shifting and Incidence of Taxation*, p. 253.

³ Edgeworth, *Econ. Journ.* vol. x. p. 188.

but is higher in some places than in others. These differences in the weight of local taxation greatly modify the scientific answer, and change the simple payment by the tenant theory (payment being used in its vulgar significance) to the goodness-knows theory. The full scientific answer to the question: Who pays a varying local inhabited house-duty? is that the payment will be divided between the various persons concerned—tenant, investor, and ground landlord—in proportions which depend entirely on the conditions of each separate case. The circumstance which gives tenants the power of escaping taxation is the fact that local rates may be lower in some other locality, and that the tenant can remove there unless the landlord agrees to equalise matters by paying the difference. This doctrine is quite modern, and was unknown to the older economists, who treated local rates as similar to the national inhabited house-duty.¹ The distinction between a uniform and a varying rate is this, that in the first case you take the rate into account, while in the second you also take the rate in other localities into account. The practical outcome again is this, that in the first case you go into a smaller house, and in the second you stay in your house and pay less for it. Thus if the house-duty were 4s. in London and 3s. in Newcastle there would, in theory, be “a certain rush of inhabitants”² from one place to the other, and as a consequence London landlords would have to submit to a reduction of rent. The reader is again reminded that “onerous” rates

¹ The modern doctrine seems to have been invented by Mr. Dudley Baxter (*Mem.* p. 132, second note).

² *Mem.* p. 130.

are being discussed. Beneficial rates, it is agreed, are paid entirely by the tenant, because he gets value in return.

The scientific argument may be stated as follows, quoting Professor Edgeworth:—¹

Suppose that . . . there are two districts, A and B, between which occupiers have a choice. And the onerous imposts in each equalling, or rather equilibrating each other initially, let a new rate be imposed on houses in A. At first sight it might appear that ground-rents in A would be diminished exactly to the extent of the new burden. But this would occur only in the case of a *fixed* burden on the production or enjoyment of premises in A: *e.g.* a “church rate,” not of the ordinary kind, but of the nature of a fixed charge levied on the owner, or a payment by each occupier for an indispensable right (or rather servitude) of way. But the rate which we are considering varies *ad valorem* with the value of the house. Accordingly, as above shown, building will be discouraged in A, and if A were an isolated region there would be simply a reduction of demand in A, attended by a diminution of ground-rent. But A being in rivalry with B, there will also be a fall of demand in A owing to the diversion of occupiers to B, while from the same cause there will be rise of demand in B, with a corresponding readjustment of invested capital. In the result ground-rents will have decreased in A, and will have increased in B.

To measure the decrease of ground-rent in highly-rated districts, and the increase in ground-rents in low-rated districts is, unfortunately, scientifically impossible.

The scientific theory, says Professor Edgeworth, “is a conception very different from the representation . . . that the imposition of a rate in a district causes a reduction of ground-rent which may be measured by the amount of the rate, or at

¹ *Econ. Journ.* p. 340. The simplest case only is quoted, as the complications necessary for strict theoretical accuracy are confusing. See *loc. cit.* pp. 340, 341.

least its excess above a certain level common to all districts." The state of affairs "may rather be likened to a sort of an air-cushion, of which some parts are originally more elevated than others; but when you press down some others go up, and accordingly the total depression caused by certain pressures at different points is not to be expressed by any simple formula."¹

But although no attempt at measurement can be made, the salient points in the scientific theory of deduction may be emphasised for sake of clearness.

(a) *As regards Localities*

The theory does not apply to local rates in general but only to rates in districts which are in competition with one another, that is to say, districts to which occupiers could migrate for the purpose of escaping a higher inhabited house-duty without incurring loss or serious inconvenience. In this sense there is no competition between town and country, for, as Professor Marshall has pointed out, low rates in Devonshire will not attract Londoners.² There is also no competition between one town and every other town, because most people live in a place for some definite reason, connected with the mode in which they earn their livelihood or in which they amuse themselves, and could not migrate to a place less favourable in this respect.³ Further, the question of competition, even among equally desirable localities (if such exist), can only arise if the difference in rates is very considerable, for against the gain secured by a lower house-duty, there

¹ *Econ. Journ.* vol. x. p. 342.

² *Mem.* p. 119.

³ *Ibid.* p. 120.

must be set the expense of a removal. Professor Marshall calculates that if the loss incurred by a removal were equal to two years' rent, the advantage secured in house-duty would have to be 2s. per £ sustained for thirty years.¹ Unless the tenant has a trustworthy guarantee that the difference in rates between his old home and his new abode will remain for more than a quarter of a century, he must contemplate actual pecuniary loss by going off in pursuit of differential advantages in the matter of inhabited house-duty. It is also obvious that it is only comparatively young men who will migrate, for unless the householder can look forward with a reasonable degree of certainty to living for other forty or fifty years, the game will not be worth the candle.

(b) *As regards the Payment Transferred to the
Landlord*

The sum which tenants can deduct from their rent is, therefore, not the amount by which the local house-duty in one district exceeds the duty in any other district, but only the difference between such districts as conform to the numerous conditions detailed above. Further, the sum which can be deducted is not the whole of this difference, but only a part. Demand in district A will fall, causing a lowering of rents, and demand in district B will rise, causing an increase in rents (see above quotation from Professor Edgeworth). The family removing to escape high rates may, there-

¹ *Mem.* p. 120. It does not, of course, affect the question whether the tenant actually removes, or only threatens to remove, for the landlord must know whether the threat can be carried out.

fore, rush into the arms of high rents. This circumstance will not only materially affect the extent of inter-parochial migration, but it will also not be without influence on the pecuniary losses suffered by landlords.

(c) *As regards the Hereditary-Burden Theory.*

A very important practical consideration from the point of view of reform arises in connection with the hereditary-burden theory in its scientific form. The agitators' theory makes reform impossible, because it declares that the house-duty is paid by the landlord exclusively. Even in the somewhat attenuated proportions to which science reduces this doctrine, the theory is dangerous as far as it goes. It is, therefore, desirable to emphasise the fact that the diminution of ground-rent in highly taxed districts causes *ipso facto* an inflation of ground-rents in low taxed districts.¹ If the loss in the one case is to be called an hereditary burden, the gain in the other should be called an hereditary bonus. Politicians are short-sighted when they oppose a change in rates in spite of the desirability of reform, for in perpetuating the burden of one set of land-owners, they preserve the bonus to another set. Compare Professor Marshall's evidence : —

Heavy onerous rates in one place act as a betterment to rival places which escape similar rates. It is, therefore, not true that an equalisation of onerous rates would enrich site-owners at the expense of occupiers.²

¹ As to whether the rise is equal to the fall, or larger or smaller, see *Econ. Journ.* vol. x. p. 341.

² *Mem.* p. 120.

After having stated the scientific theory, it remains to consider whether any modification is necessary before the economic doctrine can be applied in actual affairs. The proposition which is offered to us by the experts is purely hypothetical, and depends for its correctness on the truth of the assumption that tenants are what is called "economic men." Among the many peculiarities of the economic man two are of special importance in the present connection, namely (1) that tenants are actuated exclusively by pecuniary motives; (2) that they possess "perfect knowledge" on the subject of local taxation. These two assumptions may be considered separately.

(1) The pecuniary motive to migrate from one place to another in search of lower local rates is, we have seen, a very small one. About a quarter of a century must elapse, according to Professor Marshall's calculation, before we could recoup ourselves for the expense of removal even on the rather improbable assumption that the difference in rates is 2s. per £, and that the cost of the operation is only equal to two years' rent. At the end of this period we should be "square," and the pecuniary advantage would only begin to accrue after a protracted sojourn. There would further be deterrents in the reflections (1) that the difference in rates might not be sustained; (2) that the stipulated influx of inhabitants might put up rents; (3) that one is not young enough; (4) that one might die unexpectedly, or that one might have to leave the selected locality for some other unforeseen reason. Now we may ask, as practical men: Even assuming that two places were found, which are equally favourable in all other respects, and have the

necessary difference in house-duty, how many people are there who will leave their homes, abandon their friends, and place themselves at a distance from their relatives in order to obtain a pecuniary advantage of infinitesimal amount, and of a very uncertain nature? Most people surely elect to live in a certain place for reasons which outweigh in importance any difference in rates likely to arise. The traditional economic assumption that men are actuated solely by a desire for wealth, seems in scientific arguments about rates to give place to the fundamental hypothesis that men regulate their conduct solely by a desire for a low house-duty. When the experts composed their two hundred pages of evidence, they concentrated their thoughts on local taxation. The general public, in order to act as political economists say they will, would have to do the same, and think everything in the world vanity except rates.

(2) The second assumption on which the economic answer is based is that tenants possess perfect knowledge on the subject of local taxation. We have seen that it is onerous rates only which enter into the question, and the very pertinent consideration arises: How do you know an onerous rate from a beneficial one? If we turn to the evidence of the experts in the expectation of finding assistance in this important matter, we discover that great difference of opinion exists as to what local expenditure should be classed as onerous and what as beneficial; indeed we find that the most prominent authorities are not only obscure but self-contradictory on this subject. Even Professor Edgeworth, for instance, at one time concurs in the view that local outlay on fire brigade, public health, etc., is

onerous,¹ at another he describes almost all local rates, even a portion of the poor-rate, as beneficial.² The truth of the matter is that onerous and beneficial are more or less ill-defined terms, which are useful enough in certain broad theoretical generalisations, but which are separated by no dividing line, so that uncertainty must always arise when we apply them to points of detail. Considering, therefore, that it is impossible even for a Professor to tell what rates are onerous, it is extremely improbable that the general public, who regard rates as a subject of considerable mystery, will be able to arrive at sufficiently definite conclusions to influence them in their choice of a dwelling-place. And it is not only onerous rates which are difficult to find out, the rates of all kinds in various places are by no means easily obtainable. One is entitled to assume that if rates in different towns are a matter of such constant solicitude to the public as is made out, there would be some easily accessible information on the subject, similar, say, to the Stock Exchange quotations in the newspapers or to penny time-tables. No such statistics exist, and the fact that there is no supply creates the presumption that there is no demand. The figures published by the Local Government Board do not give the desired particulars. Not only are these official records three or four years old before they attain publicity, they also do not contain any information which could be serviceable to intending emigrants. Each person would have to collect statistics privately, and we need no longer inquire whether people would do this, for it is a matter of general knowledge that as a fact no one does it.

¹ *Econ. Journ.* vol. x. p. 181.

² *Ibid.* p. 182.

An inquiry into the circumstances under which a portion of a varying inhabited house duty can be transferred to landlords seems to point to the conclusion that on the whole we are justified in adopting the position of the old economists, Adam Smith, Ricardo, and Mill, and treating the tax as in no respect different from a uniform house-duty such as our national inhabited house-duty. In advocating this answer the present writer does not wish to be thought to be casting a slur on Economics. On the contrary, he is very sensible of the debt which the public owe to economists for their investigations. Plain men are apt to flatter themselves that what they call common sense is alone needed to deal with matters of everyday occurrence and that no scientific aid is required. The question of local rates dispels this subtle and dangerous illusion. The heresy contained in the theory that tenants can deduct their rates from their rent is not an economic error, but a popular error. Economists have always controverted this theory. Adam Smith boldly compared a house-duty to a tax on a consumable commodity; Ricardo expressed the opinion that a house-duty would fall entirely on the occupier; Mill classed local rates and national inhabited house-duty together and sketched a scheme for a general indirect income-tax. That many plain men have evidently never heard of all this is not the fault of economists. Since the theoretical distinction between national house-duty and local house-duty has been "discovered" (not by a professor) economists have again come forward and accurately defined the scientific position. If a practical man is disposed to consider that the value of the doctrine has been over-

rated and that it is useless in actual affairs, this difference of opinion arises solely on account of the hypotheses on which economics rest. Economists draw their generalisations and give them for what they are worth, stating that economics is a science, not an art. That these generalisations are in the highest degree valuable has just been shown, but they are offered to us on the express understanding that they must not be considered as judgments which are necessarily applicable to a particular subject.

B. LOCAL DUTY ON TRADE PREMISES

An inquiry into the final as distinguished from the immediate payment of this class of local taxation is as necessary as the study of the incidence of a house-duty, for the immediate payments of rates by traders are, if less oppressive, certainly no less inequitable than the existing house-duty.

The economic theory regarding the final payment of duties on trade premises is just the ordinary good-ness-knows theory with a few additional elements of uncertainty thrown into the bargain.¹ We have to deal not only with ground owners, building owners, and tenants, but also with the tenant's customers, for a trader may shift some of his rates by charging higher prices. To arrive at a practical, working answer it is necessary to make an analysis, keeping in view that what we wish to find out are two things: (1) Is there any "transfer" on to landowners making reform

¹ See answers to Question 6 (b) in *Mem.*, etc., also Professor Edgeworth's article in *Econ. Journ.* vol. x. p. 343.

undesirable because it might result in a benefit to landowners? (2) Is it necessary to introduce reform, or may matters be left as they are?

The first point to consider is the question of the reduction of demand for trade premises. A tax will increase the price of accommodation, and the trader, if he wishes to free himself, will be confronted by two alternatives: (*a*) he may go into smaller premises; (*b*) he may raise his prices. His action will depend on the conduct of his customers, namely, whether their demand decreases with a rise in the price of commodities, or whether it does not. To quote Professor Edgeworth: ¹—

If the demand for bread varies with the price less than the demand for bonnets, the bakers may employ nearly as extensive premises before as after the imposition of the tax, which will be almost entirely shifted to the consumer; while the milliners meet the burden by some diminution in the size of their establishments, as well as by some rise in price.

The reduction of demand, therefore, cannot be calculated, and it seems justifiable to neglect this factor altogether. (1) The rise in prices brought about by local rates must be very small, and the reduction of demand for trade premises (where it occurs) must be infinitesimal; (2) traders will make every effort not to reduce the size of their premises, for we must assume that no one uses larger premises than are necessary for the efficient conduct of business, and that a reduction would involve serious consequences; (3) this infinitely small and infinitely complicated diminution of demand can, in any case, produce only an "effect" on landowners, and no transfer.

¹ *Econ. Journ.* vol. x. p. 344.

For practical purposes we may therefore leave the question of reduction of demand out of consideration.

Much more important matters demand our attention. Starting with the fact that traders have to pay rates in proportion to their rent, we must emphasise the circumstance that such a tax is of a different nature from an inhabited house-duty. A house-duty is a rough income-tax; a duty on trade premises bears no relation to the ability of the taxpayer, and will burden different individuals in very unequal degrees. If the tax were a perfect income-tax it could not be transferred from the trader at all.¹ If, for instance, the English duty were like the French *contribution de patente*, which is an impost originally like our rates, but gradually improved till it is levied as accurately as may be according to the presumptive ability of all persons engaged in trade and other pursuits, then we might broadly say that the duty would be paid entirely by the rate-payer. Our *ad valorem* duty, however, makes not the slightest approach to an income-tax, for it is obvious that the profits earned in any premises are not proportioned to the rent. The tax is, therefore, unjust, being harder on some than on others, and this inequality will produce important effects in the case of traders which are absent from the case of a

¹ On the assumption that there is no reduction of demand, Professor Sidgwick states that shifting would occur unless the taxation of traders were counterbalanced by taxation of other classes (*Mem.* p. 105). It seems unnecessary to mention this qualification, because the rates on premises are practically universal. Even a doctor pays them, if we assume that he takes a larger house in order to have a waiting-room and consulting-room. The only important class who escape are those who draw their livelihood from lending capital to public bodies. Consols are not touched by rates, but investors in railway stocks pay rates.

house-duty. A trader—and it may be noted that the position of farmers is exactly similar although rates on agricultural rent require to be discussed separately—a trader will endeavour to free himself from so much of the burden of taxation as is not common to all pursuits, and in his attempts he will be assisted by the well-known law that the profits in various employments tend to equality. This aspect of the problem may be considered under two heads: (1) as regards inequalities between various trades in one district; (2) as regards the inequalities common to all local rates, viz. differences between districts.

(1) *Absence of Equality between Various Trades*¹

The effect of an *ad valorem* rate on rent is, as Professor Marshall says, to throw unjust pressure on those trades which happen to require large buildings in proportion to their net returns.² To be strictly accurate one should say not “large buildings,” but large “assessable value,” for ratable machinery is an important item in local taxation. The trader will

¹ Great ingenuity has been expended by the experts over the effects likely to arise not in different trades, but in different streets.* A hosier in Bond Street can “stick on” prices, while a hosier in some humble locality must “cut” prices. *Query*: Will the Bond Street hosier be able to shift the rates on his highly-rented shop? Such hair-splitting may be avoided by considering that the rent of the Bond Street tradesman is determined by the opportunities for making profits in fashionable quarters, and that presumably it bears no greater *proportion* to net income earned than rents in any other place. The tax could therefore not be shifted, as between the hosier in one quarter and the hosier in another quarter.

² *Mem.* p. 113 (ii. 5).

* See *Econ. Journal*, vol. x. p. 345.

endeavour to shift this burden, and the question is, in what direction? It seems probable that the owners of real property will not be affected by the differential taxation thrown on certain classes of tenants, for they cannot be compelled to accept diminished rents from tenants in one trade when there are other offerers in the market who are not subject to unjust taxation. If we take the case of shopkeepers the position will become clear. Suppose that a furniture-dealer requires a large shop in proportion to his profits, and that a milkman can do with a small shop in proportion to his profits. The ground owner may be left out of consideration altogether, for when the land is taken over the builder does not know whether the tenants will be milkmen or furniture-dealers. As regards the investor in house property, it is improbable that he will accept less rent from the furniture-dealer because this unfortunate man cannot make the same profit in a shop of a certain size as some other tradesman could, nor is it probable that the happy milkman will have to pay more rent for the opposite reason. A new group of persons has to be taken into consideration in the case of the taxation of trade premises, namely, the consumers of the articles produced or sold. If the unjust portion of the tax on traders is to be transferred at all, it is the consumer who will suffer. It should be observed, however, that the economic doctrine that profits "tend towards equality" is a hypothetical generalisation, and does not absolve politicians from making the primary incidence of taxes on trade premises as equitable as possible—quite apart, of course, from the question of justice to

consumers. If shifting occurs the scene of the inequity is merely changed. It is unjust to consumers to make them pay the inequitable rates on traders.

It is desirable to enter somewhat fully into the doctrine that profits tend towards equality, for, applied to the local taxation of traders, the theory is surrounded with peculiar difficulties. We have already used this doctrine in dealing with the case of brewers and the beer-duty. It is easy to understand that brewers will not in the long-run be affected by an excise. The impost is peculiar to their trade, and the calculation necessary to produce a transfer on to the consumer is comparatively simple. Indeed, in a kindred trade—the whisky trade—there is no difficulty in openly tracing the operation. A distiller invoices whisky to his customer at so much a gallon, and adds the duty as a separate item. Except for the indirect “effects” in checking consumption the rate of duty is a matter of absolute indifference to a distiller. It does not even affect his prices. The transfer of local rates is very much more complicated. All traders pay rates, but some pay more heavily than others. The question is, How much more heavily does one trader pay than the other? To produce shifting with any approach to accuracy it is necessary to know this exactly, and that is an impossibility. The rates on traders may be equivalent to an income-tax of 1s. per £, 1s. 3d. per £, and so on in infinite variations. A distiller knows that he pays excise-duty from which a cotton-spinner is exempt, but when he comes to his local rate he cannot tell how much more or how much less he bears. Even cotton-spinners among them-

selves must be in ignorance as to how matters stand. In short, the shifting of differential rates brought about by the tendency of profits to equality is a most uncertain operation. Instead of being able to trace the transaction openly, we can only take refuge in vague generalisations. We may say that, allowing for different risks, etc., one trade ought to yield the same return to capital as another. Further, we may conclude that if one trade were to bear more local taxation than another, it would yield a smaller return. Such a result being impossible, it is proved *ex hypothesi* that differential rates will be transferred. As far as economists are concerned this reasoning is conclusive, but when we enter the sphere of actual affairs the question bears a different aspect. We must imagine the case of some tradesman or other who thinks he is not making as much as he ought to, for that is the state of mind on which the equality theory depends. Now who in all the world ever heard of such a man beginning to wonder whether this result might be due to local rates on him being 1s. 3d. per £, while on somebody else they are 1s. per £. There are a hundred causes which may be at the bottom of a man's low profits, and his attempts to remedy the evil will necessarily be tentative. He may even get his profits to his satisfaction by some other means, and never shift his rates at all. The shifting of traders' rates being, therefore, an operation which it is impossible to follow out with certainty, it becomes particularly necessary to make such rates equitable from the first, so that the necessity for shifting may not arise.

(2) *Absence of Equality between Various Districts*

The scientific argument that a varying house-duty can be shifted on to landowners as far as the rate in one locality exceeds the rate in another competing locality, and as far as the difference is not equalised by a rise of rents in the low-rated district, applies equally to the case of trade premises, although the arguments are weakened if there is a shifting to consumers. As regards the hypotheses on which the theory rests, and their modification for practical purposes, the remarks on the subject of the degree of knowledge assumed apply here also. On the other hand, the assumption that men are actuated solely by a desire for wealth holds more absolutely in the present connection than it can be admitted to do in the matter of inhabited house-duty. The conditions favourable for earning a livelihood receive more anxious consideration than probably any other matter. It must not be assumed, however, that a transfer can necessarily take place. A trader who contemplated removing his business to another locality would have to consider the question of fixed plant, if he were a manufacturer, and of "goodwill"¹ if he were a shopman. Again, a trader who wished to establish a new business would be guided by the conditions of the so-called "localisation of industries," that is to say, proximity of labour supply, markets, etc. Probably inter-parochial migration may be neglected.

Reviewing the question of rates on traders as a whole we may conclude:—

Rates common to all pursuits are paid by the

¹ *Mem.* p. 120.

trader. It is impossible to determine who pays the existing rates as far as they are inequitable, but as regards the two points which were mentioned at the outset as being of importance, it is tolerably certain—(1) that there is no transfer to landowners, so that the hereditary-burden theory does not stand in our way; (2) that rates on traders ought to be reformed, because (a) commercial competition cannot be trusted to bring about equity as far as the trader is concerned; (b) if commercial competition does relieve the trader the inequity is not removed, but merely transferred to the consumer.

C. LOCAL DUTY ON AGRICULTURAL RENT

As far as the statement of the scientific theory goes it is a very simple matter. Rent paid is the only possible basis for an income-tax on farmers, and as between one farmer and another it is probably not a very bad basis. But farming, as compared with other industries, is subjected to heavy differential burdens, and the question is, Who will pay this exceptional taxation? It should be observed that it is impossible to give any estimate of how much of the rates on farmers are "differential," because the amount depends entirely on the rival method of employing their capital and labour which we assume to be open to farmers. Large farmers are men of the same social and intellectual standing as large manufacturers. Some manufacturers are very heavily taxed on account of the ratable machinery they use, and, as has been observed, the doctrine that all this is shifted is a pious belief.

Small farmers, again, are in competition with people engaged in more humble pursuits. No one knows how heavily these various employments may be rated, and consequently no one knows how much of a farmer's rates may be "differential." Generally speaking, however, we may accept the fact that farmers are more heavily rated than other people, and simply inquire who will pay the exceptional amount, whatever it may be.

According to economic theory, it is perfectly indisputable that the landlord will bear it. Differential taxation of any one employment is in the long-run impossible; foreign competition prevents the burden being transferred to consumers in higher prices; and the landowner, being unable to escape, must submit to a reduction of rent. It is, therefore, theoretically a matter of indifference to farmers whether they are rated heavily or not, for the tendency of profits to equality enables them to shake off any burden to which other trades are not subject. A remission of unjust taxation could not place them in a more favourable position than they can secure for themselves, and the measure of relief would be a "gift" to their landlords. Theoretically that is unanswerable.

Before commencing a refutation of this belief the present writer would like to define the object he has in view. He does not discuss who *ought* to be taxed, he also does not enter on a justification of the Agricultural Rates Act. The method by which farmers have been relieved of their excessive burdens he considers utterly indefensible, and concurs to this extent in the views expressed by Sir E. Hamilton and Sir G. Murray in their minority report. What is to be attempted is to

show the mistake of supposing that, as far as rates on farmers are in excess of the taxation of other employments, they are paid by landowners. The logical consequences of this view will be developed later. But Sir E. Hamilton and Sir G. Murray advocate the continuance of the relief to farmers "*even if by the indirect action of economic forces the relief eventually benefits others.*"¹ Certainly that is the hypothetical opinion of professors. The hereditary-burden theory in the case of agricultural rates is not a principle of party politicians, but a doctrine of political economy supported by the highest scientific authority. It remains, however, to consider whether the doctrine is borne out by facts, or whether it is purely theoretical.

It frequently happens that a perfectly logical theory cannot be applied to the conditions of actual life. We may recall, for instance, the history of the economic doctrine as to how wages are fixed. Mill in his day developed a "law" explaining how the price of labour is determined. He evolved it out of his inner consciousness, and it was logically unassailable; moreover, it entirely accorded with the current passions and prejudices of the period. For long the "Wages Fund Theory" was greedily accepted by politicians and public, and very sensibly strengthened the country in its attitude of hostility towards trade unions and strikes. Men with a first-hand knowledge of industry were convinced that the "Wages Fund Theory" was untenable. Mill's fundamental assumptions were tested by actual facts, and it was discovered that the hypotheses were false, and that the superstructure of argument must be abandoned. The inventor himself issued a recantation.

¹ Final Report, p. 128.

The "Wages Fund Theory" is now the standard object lesson used by careful teachers to impress on their pupils the necessity of verifying economic laws by reference to experience. It is therefore important to note, in regard to the theory about differential taxation being of no consequence to farmers, that the people who hold it are either philosophers, with no more knowledge of agriculture than Mill had of industry, or else Tadpoles and Tapers, who are only concerned about a cry. No "practical man" holds the doctrine. This fact has been clearly brought out in the discussions which have been waged round the Agricultural Rates Act.

It has been most appositely pointed out, in the first place, that if farmers are not affected by differential rating, it is singular that they should be so very anxious to get the agricultural grant passed. If it does not benefit them, why do they agitate for it? In answer it has been suggested that farmers are notoriously stupid. There was a debate on this subject in the House of Commons. Mr. Long answered the imputation, and maintained that farmers as a body were as intelligent as any other class of men in the kingdom. He was interrupted by opposition cries of Oh! Oh!¹ The relative mental ability of agriculturalists and industrial *entrepreneurs*, like the relative good-nature of black-haired and fair-haired men, must always be more or less a matter of opinion. One is reminded, however, of a celebrated passage in the *Wealth of Nations*, where it is pointed out that the innumerable volumes which have been written on farming may satisfy us that, among the wisest and

¹ *Times* report, 30th July 1901.

most learned nations, agriculture has never been regarded as a matter very easily understood.¹

But it is not only the stupid farmers who do not believe that unjust taxation is a matter of indifference to them, and that if their rates were made equitable they would simply pay more rent; there is not a single landowner who believes it. Examine the evidence given before the Royal Commission, and everywhere the landlords who were called as witnesses express the same angry impatience when it is suggested that the adjustment of agricultural rates would not benefit farmers at all. Mr. Rew, writing in the *Journal of the Agricultural Society*, expresses the same opinion:—"The overwhelming testimony of occupiers of land is that rates do affect them, and that their reduction or removal will benefit them; and even if the theories of political economy do not endorse my view, I, for one, prefer to rely on the evidence of practical experience."² The answer, as might be expected, is again ready: landlords cannot be expected to argue against their own interests; farmers are notorious fools and landlords are notorious scoundrels. Such a summary method of testing evidence compels one to select one's witnesses with care. Here, therefore, is the testimony of a solicitor, one of the largest country practitioners in Perthshire, and a man who takes an interest in wider things than the details of his profession, and who has been made an honorary LL.D. of one of the Scotch universities. He has been engaged all his life in arranging leases, and, questioned by the present writer whether in his experience he

¹ Book i. chap. x.

² *Journal* 1896, "Local Taxation in Rural Districts."

found the farmers make a calculation of rates for the purpose of deducting them from the rent they offered, he replied that he had read about that, and it was all nonsense. Questioned further as to what would occur if he were instructed to demand an increase in the rents on the estates he factors commensurate with the relief given by the Agricultural Rates Act, he replied that the country-side would simply rise in rebellion if you tried to do that.

The most convincing argument of all is the appeal to history. The grant in relief of agricultural rates has now been given annually for over six years. Has it raised rents? The champions of the reduction theory have been challenged to apply the test; they have been called upon to produce a single instance of a rent raised by the grant. One solitary gentleman, a Mr. Emmott, has accordingly come forward and told how, acting *as a trustee*, he had been compelled by the laws of right and justice to demand an increase of rent from a tenant. Landlords themselves have not been equally fortunate. Not one other instance has been produced in answer to the challenge, and to prove that the doctrine of political economy bears the test of facts.

Such a remarkable discordance between theory and actual experience creates the presumption that there is some flaw in the hypotheses on which the theoretical arguments have been built up. There may be exceptions to a theory, even large and numerous exceptions, without our being justified in questioning the validity of the theory as a whole. But the unanimous practical opinion which we find arrayed against the economic doctrine respecting farmers' taxes must raise serious

doubts as to the desirability of accepting such a theory as a guide in practical affairs. Equity in taxation, namely, the claim that every person should contribute according to his ability, is too important a matter to be settled exclusively by doctrinaires.

The assertion that farmers bear nothing but the average burden of local taxation is founded on the theory that profits in various employments tend to equality. This economic "force" will, in the first place, make farmers try to make a transfer. The further conclusions, namely, that the victim selected will be the landowner, and that the attempt will be successful, depend on the theory of economic rent. This theory must be examined. Economic rent must not be confused with money rent. The money rent paid by a farmer includes two elements: (*a*) interest on the capital which the landowner has expended in drainage, fencing, buildings, and other improvements; (*b*) a payment for the inherent qualities of the soil. To the latter part of money rent the term economic rent is alone applied. Economic rent may be large, or it may be non-existent. We may find land in cultivation which yields to its owners not only interest on the capital they have invested in its improvement, in buildings, fences, etc., but also something over and above, namely, economic rent. We may also find farms let which it just pays to keep in cultivation. It is worth while to let this land, because it yields the landowner interest on money that may be put into it, being thus on a par with any ordinary investment; but it returns no exceptional bonus—in other words, no economic rent. Land of this kind is described by economists as lying "on the margin," and is called

“no-rent land,” that is to say no-(economic)-rent land, for it returns a payment in respect of interest which in current usage is called rent. Ricardo, in treating the question of taxation before the repeal of the corn-laws, pointed out that exceptional taxation would fall on that portion of money rent called economic rent, but that it would not fall on interest. If exceptional taxation were heavy enough to eat up economic rent and encroach on interest, then investments in improvements, buildings, etc., would be checked till the familiar operation of demand and supply restored the return to capital to the ordinary level. The whole position may be illustrated by an example, for it is necessary to understand why the “incidence” of rates on farmers should be so completely different from rates on other people. Let us take the case of some farm to let, and follow the transaction out according to the laws of political economy.

The landowner has put up buildings, fences, etc., and must get a minimum of, say, £100 from a tenant. If he were to get less, renewals and repairs would involve a continuous loss, and it would be better in the long-run to let the land go out of cultivation. But the landowner may get more than £100; he may get economic rent. What to ask under this head he does not know, and he therefore advertises for offers from farmers. Any money he gets over £100 will be for his land as such, and will be economic rent.

Next let us take the farmer, and let us suppose that the rent is not fixed until the tenant has been in the farm for a year. The farmer has a little capital, say £2000, on which he expects interest, say £100. He also requires some remuneration for his labour

("wages of management"), say £500. Unless he makes £600 a year, it will be to his advantage to give up farming and try something else, for he may calculate that in other pursuits he could make that sum. At the end of the year the farmer finds that he has made a net profit of £850, that is to say £250 more than he requires for himself. Competition will carry this sum to the landowner, for farmers, in the long-run, will make ordinary profits and not more. The landlord therefore gets £250 rent, of which £100 is interest and £150 economic rent.

Now let us take farmers' rates. Rent cannot in the long-run fall below £100, but it may be more. On what does this "more" depend? Obviously on farmers' profits.¹ Economic rent is surplus profit, that being the only way in which the value of land as an instrument of production can be determined. If the farmer in our example were to pay *differential* taxes amounting to say £20 (taxes common to all employments do not affect the question), then his net profit would no longer be £850, but £830. He himself will not be affected, for he must make £600. The sufferer will be the landlord, who gets £230 instead of £250. Of this sum £100 is interest, and £130 economic rent.

The economic theory may be summarised thus:—
(a) The price obtained for the natural qualities which land possesses, apart from improvements, is fixed in a peculiar manner. In the case of ordinary commodities the price obtained must be sufficient to make it worth while to continue to produce the commodity. In the case of land, on the other hand (apart from improve-

¹ Farmers' profits depending on the price of grain.

ments), there is no such thing as a price which it is not worth the owner's while to accept; price depends entirely on what the tenant can afford to give. If peculiar taxes are imposed on agricultural tenants, they can afford to give less. Anything that produces this result reduces economic rent *pro tanto*. Differential rates on farmers, therefore, fall on the landlord. (b) Interest on capital employed in any particular trade is not fixed by what people in that trade can give, but in the long-run by what owners of capital in general can afford to take. Peculiar taxes on certain classes of traders could therefore not be deducted from interest payable to capitalists. In as far as landowners are capitalists, they will not be affected by unjust taxes on farmers.

The theory of rent was formulated by Ricardo in 1817. At that time there was a corn law in force which prohibited the importation of foreign grain if the price in the home market was below 80s. a quarter. Circumstances have changed since then. Our ports have been opened to the produce of every country in the world, and ocean freights have become so low that it costs little or nothing more to place foreign grain in the English market than it does to take the home-grown article to the purchaser. Thrown into competition with soils of greatly superior fertility, or with localities where there is an abundant supply of agricultural labour, the land of England has become no-rent land, which does not even yield an ordinary return as an investment. Theoretically the land ought to go out of cultivation. That much of it continues to be farmed is partly due to the fact that enormous sums have been sunk in permanent ameliora-

tions, partly to the peculiar circumstances which induce English landowners to continue in what may be called a losing business, and which even induce people to purchase agricultural land when it comes into the market. Large investments on improvements are annually made, for there is no class of property which calls for such heavy expenses of upkeep as agricultural land; but this money is paid out of wealth derived from other sources, and not from the surplus yielded by the land. Men who own nothing but land find it necessary to mortgage or sell in order to undertake the indispensable expenditure necessary for securing tenants. Land in England is not an instrument of production, but a luxury of the rich. There is no such thing as economic rent.

Economists meet the alteration in conditions which has taken place since Ricardo wrote by maintaining that landowners do not expect¹ an ordinary return on their capital, and that what money they get is consequently a bonus to which the term economic rent may be applied. It is certainly true that not even an ordinary return is expected from capital invested in land. Not long ago an interesting case in point came to the knowledge of the present writer. A wealthy landowner, who went to South Africa with his regiment soon after the beginning of the war, interviewed his factor before departure. The factor pointed out the desirability of certain improvements, and he received permission to spend all the rents during the owner's absence, "but not more." This man's agricultural property yields him *nil*, and he is content if it costs him *nil*. But for economists to use

¹ *Mem.* p. 132.

these facts in the construction of a modern doctrine of rent is absolutely arbitrary. It should be clearly realised that rent as Ricardo understood it was not a mere quasi-rent,¹ but a name employed to describe payments received for the exceptional qualities of land. At the present day it would be more correct to describe English land as consisting of low-interest land and no-interest land. Theoretical arguments propounded a century ago which depend on the existence of economic rent cannot be applied; certainly they cannot be applied with sufficient authority to override the unanimous testimony of men who have personal knowledge of the subject.

So much for the farmer's power to transfer differential rates. We must now deal with the economic force which makes him desire to make the transfer, namely, the tendency of profits to equality. Let the reader recall the example which was used above to illustrate the manner in which farmers theoretically determine the rent they pay. They take the net profits actually made, and deduct what they consider to be "ordinary" profits for themselves—in the example £830 minus £600 the difference is rent. For sake of simplicity we assumed that the farmer accurately knew his net profits; in reality, however, he has to make an estimate before he offers for a farm. In order that the theory of the tendency of profits to equality might apply in the case of calculations for fixing rent, the "perfect competition" which the economist assumes as a fundamental

¹ Professor Marshall uses quasi-rent in connection with the return received from agents of production, other than land, over short periods.

condition in all his reasoning would have to be present in farming. No doubt some trades are regulated by "perfect competition," but farming is not. Estimates of rent are a very different thing from the calculations made by a great contractor, one of those "captains of industry" about whom Professor Marshall loves to tell. Imagine a farmer engaged under these conditions. Surrounded by interest tables, cost sheets, and market reports, our friend makes his calculations for a nineteen years' lease. He takes first the receipts from the sale of his produce. Estimating the probable movements in the grain market, the prospects of agriculture in the States, Hungary and Timbuctoo, balancing the chances of peace and war, and calculating the odds on the return to power of a Conservative Government, he arrives at his probable annual drawings. He then turns to expenditure. With equal exactitude he estimates the outlay on wages, seeds, manures, rates, and any other differential taxation there may be. To calculate the rates he requires the assistance of an actuary, for they are proportioned to the rent, which he does not know yet. He finally makes an allowance for his own "wages of management," interest on his capital, and insurance against risk, deducts the total estimated expenditure from the receipts, and makes the landowner an offer of the difference. That is how a farmer ought to proceed. A big contractor would certainly set about his work in this way; he would go into decimals, and success or failure would depend on the result. All that kind of thing may be very fine, but it is not farming. The theories of political economy apply in their entirety only if competition

is perfect. They gradually become less and less applicable as we go down the scale in the list of "exact" employments, till at last they become practically useless, and worse than useless, for they may mislead. Perfect competition exists, say, in the market for the great international securities and stocks: buyers and sellers are constantly on the alert; they are informed by telegraph of every fluctuation and of every prospective change of conditions. Perfect competition also exists in the largest of the world's manufactories, where there are statistical departments engaged year out, year in, in making up cost sheets and estimates. The *entrepreneur* can keep his finger constantly on the pulse of his business. In such cases we do not go far wrong if we apply verbatim the laws of the economic text-book—if we assume that differential taxation could be shifted. But the very lowest on the list of competitive trades is farming. Ricardo, the retired stockbroker, did not know to make allowance for this. It is impossible to imagine anything which would be more futile than the labour spent on an accurate estimate of rent. A shower of rain at a critical moment would knock all calculations into a cocked hat. A following season, as it is called—that is, a season in which the various crops can be sown at the proper times, and in which sunshine and rain follow each other at favourable intervals,—such a season, or the opposite, means more to the farmer than ten times his rates and taxes.

The peculiarly hazardous nature of agricultural enterprise is not the only impediment in the way of accurate estimates. Reference has already been made to the practical difficulty of determining the amount

of differential taxation on farmers. The shifting of a farmer's inequitable rates cannot take place like the transfer of whisky duty by a distiller. This technical detail is interesting, because it disposes of the unvarnished deduction theory. Differential rates cannot be deducted unless you know their amount. Whatever shifting takes place must be brought about by the indirect forces which we discussed in the case of the local taxation of trade premises. But in agriculture the circumstances prevent even this imperfect approach to precision. It is an indispensable condition to the tendency of profits towards equality that the trader should know what his profits are. People engaged in industrial employments can determine their profits with great accuracy, and still the theory is surrounded with difficulties. How much less serviceable must the economic doctrine not become in a pursuit where profit can only be calculated with the utmost difficulty even by the expert, and where it is usually not calculated at all? The statistical computations without which no trader dreams of conducting business are a technical impossibility to a farmer.¹ Most farmers never know

¹ To determine profits for a period, the simplest method is to take your capital at the beginning and your capital at the end and compare the two sums. If your capital has increased, you have made profit, and *vice versa*. Now, it is particularly hard for a farmer to estimate his capital, not only because of the difficulty of taking stock, but because one "financial year" overlaps into the other. When the harvest of one year has been gradually lifted, preparations have long been made for next year's crop. Outlay has been incurred for manures, seeds, ploughmen's wages, etc., all of which is applicable to *next* year. Besides technical difficulties in the way of book-keeping, there are others no less conclusive. Traders employ clerks; farmers have to do the labour themselves. This just makes all the difference in the world. Again, the trader is compelled to keep books in order

their profits from the day they take to farming to the day of their death, and simply work away in the dark. As regards the tendency of farmers' profits to equality with general profits, we can only express such a generalisation in the very vaguest of terms. What, under these circumstances, becomes of the iron law about the transfer of farmers' rates, and of the absolute impossibility of farmers being inequitably burdened? All things considered, who is more likely to know: the stupid farmer or the clever doctrinaire?

But even if it were admitted that the fixing of rents is sufficiently governed by competition for us to apply generalisations based on a condition of *perfect* competition; even if it could be allowed that a farmer's calculations are sufficiently fine for him to be repelled from a trade in which a differential burden of taxation is cast upon him, and for him to reduce his demand, or threaten to reduce his demand, and thus force landowners to bear his differential burden,—even if this were admitted, it would not follow that a reduction of farmers' rates would benefit landlords. It may be true—in the long-run it probably would be true—that a differential tax on brewers would not fall ultimately on brewers. They could gradually transfer themselves and their capital to cotton-spinning, and those remaining could force up the price of beer till they were free of the tax. Are farmers in this position? Are they not prepared to become impoverished to a degree which would appal an

to know his debtors and creditors; farmers deal more in cash, and a pocket-book suffices. See "Farm Accounts," *Accountant's Magazine* (Blackwood), December 1898, where Mr. Richard Brown, C.A., treats this question with a full knowledge of the subject.

entrepreneur rather than give up farming. To some extent the reason is "economic." A farmer's labour and capital is to the last degree immobile. But if they could change from farming, many farmers would not. The landlords are constantly told by disinterested advisers that they would better themselves financially if they sold out and went into the beer-trade. Very few of them do. In his own sphere the farmer has a similar creed. He sees other people more prosperous. His capital, in many cases, he knows is vanishing, and yet he sticks to farming. The reasons are many; one may doubtless be expressed in the sarcastic terms of the imaginary young Richard Cobden in *Endymion*: "Only let him be able to drive into Bamford on market-day, and get two or three linen-draper's to take their hats off to him, and he will be happy enough." It is notorious that farmers are clinging to a losing trade in despite of their economic interests. Farmers' profits are at present very much lower than the "average rate" over the country in general.¹ Apply to these circumstances the rigid laws of political economy, the theories about the competitive power and eagerness of farmers, and what is the answer regarding the probable effects of the Agricultural Rates Act? An increase in rent? Most certainly

¹ The Royal Commission on Agriculture, appointed in 1893, took much evidence on this point. Taking actual figures obtained from farmers who kept books, the Commissioners reported: "The farmers whose accounts have been furnished have for twenty years past received on an average only 60 per cent of the sum which was in past days considered an ordinary and average profit." They add: "It should be borne in mind that *prima facie* accounts of this character are presented by men of exceptional business capacity and fairly sound position, and that they therefore represent conditions more favourable than the average."

not. The removal of inequitable rates will swell farmers' profits and not their rents, and this, not contrary to the laws of political economy but according to these laws, if, for sake of argument, we apply them to a case which in reality they do not fit.

Let us now summarise this whole chapter. The Hereditary-Burden Theory does not depend on the "effects" of taxes, but on the "payments" of taxes. Harmful "effects" on landowners are simply caused by harmful "effects" on tenants without compensation to the tenant. As regards "payments":

A. (1) There is no Hereditary-Burden Theory in the case of a uniform inhabited house-duty. Agitators here receive no support from political economy.

(2) There is, according to strict science, a small transfer on to landowners as far as rates are unequal from district to district. But (*a*) it is doubtful whether in practice inter-parochial migration is brought about by rates; (*b*) if it is, then the Hereditary Burden is counterbalanced by the Hereditary Bonus.

B. In the case of rates on trade premises, uniform rates throw no payment on owners. To varying rates the same conclusions apply as above (2).

C. Agricultural rates, in as far as they throw a *differential* burden on farmers, are theoretically paid by landlords. Under actual conditions the operation of the hypothetical laws of political economy is surrounded by so many difficulties that the views of mere doctrinaires cannot carry weight against the recorded observations of practical experts.

The way, therefore, lies open to the reformer, for all rates are paid by the rate-payer.

CHAPTER IV

THE COMMISSIONERS' PROPOSALS

THE reader has now been taken, as briefly as possible, over what may be called the preliminary ground of local taxation. He may object, that the journey has not been so very short; but length, even at the risk of tediousness, may be demanded by circumstances. Pascal apologised for the dimensions of his sixteenth *Letter* by saying, that he had not time to make it shorter. In this case, it is the importance of the subject which the writer ventures to advance for three chapters, which are, after all, nothing but beating about the bush. So many popular misconceptions prevail regarding the fundamental nature of our rates, misconceptions which have not only shaped the course of legislation in the past, but which threaten to bar the way to reform in the future, that it was absolutely necessary to devote considerable space to preparatory investigations. The results which have, it is hoped, been made sufficiently clear, are three. Chapter I. Rates before the statutory period were not imposed on a direct assessment of a man's entire property, but according to a rough guess at his entire property, based on outward criteria.

Chapter II. The view that rates in their statutory form, as determined by the Acts of 1836 and 1840 represent the remnant of a direct property-tax, which has been rendered incomplete by the exemption of personalty, is due to the confusion caused by judicial interpretation. Chapter III. The belief in the existence of "non-ratable property," namely, a class of property which does not contribute to rates is unscientific, and as misleading as would be the use of a phrase such as "non-excisable property." As regards the economic doctrine of the incidence of local taxation, it amounts to nothing more than that the "effects" of rates may inflict injury on people besides the actual tax-payer. A practical politician must take the chance of these "effects," and deal with a rent-tax as he deals with taxes on beer, tea, sugar, etc., which have all similar "effects."

Attention has also been directed to the fundamental principle of finance, which is impressed on the mind of every student, but which amateurs frequently disregard : persons are taxed, not property. The subject is so vitally important, that the author ventures to repeat what he said in the second chapter. In coming to a decision regarding the equitable distribution of taxes over the population, we make the assumption that taxes should be paid according to every person's ability. The obvious criterion of ability is the ownership of wealth. Any one wishing to deal with problems of taxation must impress himself with the fact that property, or wealth, is the *measure* of an individual's ability to bear taxation, nothing more. The measure of ability has itself no ability. To take the example of the income-tax, one hears it

said that the 750 millions of consols pay income-tax. They do nothing of the sort. The portions held by small investors "pay" nothing. The idea is probably connected in the popular mind with the device of tapping at the source. In order to circumvent the fraudulent our government adopts the expedient of taxing not all persons, but all incomes. If every kind of income is taxed, it follows that every person who owns an income must be taxed, it also follows that he must be taxed in proportion to his income. The device is exceedingly practical, but it must not be allowed to obscure our ideas regarding the nature of an income-tax, which is a tax *on all persons according to their ability, as measured by incomes above certain minima*. As regards property, the tax revenue derived from it is entirely dependent on the ability of the individuals who own it. If consols were all held by persons below the £160 limit, the entire 750 millions would not yield one penny to the exchequer. Property pays no taxes; persons pay taxes by the measure of their property.

Still more obvious is the error when people speak of taxes "on" things which are mere pegs for indirect assessment. A person's wealth may be guessed, but the tax imposed "on" the criterion which is chosen is none the less a tax paid out of the entire resources of the tax-payer. Yet people talk of the tax on beer, on tea, on champagne, on dogs, on carriages. Such imposts are of an entirely different nature from direct taxes. Taxes based on direct assessment are incidental to the *ownership* of property. No indirect tax is, in the same sense, incidental to ownership. The taxed article may, it is true, be owned by the tax-payers, as

in the case of carriages ; but the reason for taxing in respect of carriages is not the ownership of a carriage, but the probability that where a carriage is there will be other things as well. In the case of the majority of indirect taxes, it is even clearer that they are not incidental to ownership—the local rate is incidental to the “consumption,” as Adam Smith calls it, of real property ; the customs- and excise-duties are incidental to the use or consumption of the various articles : perfume, tobacco, tea, beer, etc.

It is in the highest degree dangerous to use the same phraseology in dealing with direct and indirect taxes, and to speak of taxes in general as “on” certain things. If every one studied finance, and knew that similar words may mean different things, no harm would be done. But many people meddle with questions of taxation who have no knowledge of the subject. These people, led astray by a similarity of words, are apt to imagine that direct and indirect taxes may be classed together as taxes “on property,” irrespective of whether the tax is incidental to ownership or incidental to use or consumption.¹ In practice such confusion makes taxation according to ability impossible. The reason is this : a direct tax must be imposed “on” *every* kind of property in order to attain equity—unless a tax incidental to *ownership* falls on all property, the impost cannot reach every owner of property in proportion to his property. Universality, in this case, is synonymous with equity. Indirect taxes, on the other hand, if imposed “on” all kinds, or “on” many kinds of property, simply lead to a

¹ See classification adopted by Royal Commission, Final Report, p. 15.

repetition of the guesses at one and the same thing, namely, ability. The basis of taxation is not property, but the ability of the individual, and no multiplication of taxes can make this basis more broad. To "include more property in the net" is an idea applicable to direct taxation only—to taxation in respect of the ownership of property. If applied to taxes, in respect of the use or consumption of property, it leads, as we shall immediately see, to the most patent absurdities. The position may be illustrated by a simile. A man shooting at a bird which he is not sure of hitting may "give it both barrels." A financier with indirect measures is in the same position. He blazes away at us with the beer-tax and the champagne-tax; with the duty on tea and on men-servants; and so on *ad infinitum*, all in the hope of hitting it off somehow. He fires not two, but any number of barrels at the same object—the ability of the individual. For this reason one must judge a system of taxation—once one leaves income-tax and death-duty—not by the number of things taxed, but by the contributions paid by each individual; just as one judges a man's marksmanship not by the number of barrels he has fired, but by inspection of the bird. Students, therefore, preach and preach that persons are taxed, not property.

We now pass to the great question of reform. While a rent-tax, like any other impost which is based on the principle of indirect assessment, has the power to reach every part of a person's wealth, we have still to deal with the question of equity. Indirect taxation, we know, avoids the danger of fraud and evasion, but courts the danger of inaccuracy. The

question is, Are rates levied on persons according to their ability? The exact definition of the term "ability," that term of "happy ambiguity," as Professor Edgeworth calls it,¹ need not be discussed here. The subject belongs to the general science of finance, and is full of difficulty. A financier must make the best of a bad case, for taxation is like war: a necessary evil which almost inevitably entails some injustice, but which must be "gone through with." Political philosophers will instruct the public regarding the attainment of perfect equity, and increased efficiency in the administrative services may make it possible to follow the lead, but the performance will, of necessity, lag behind the ideal.

The central conception, however, is this—that the system of taxation must be examined by reference to individuals. The share of taxation properly falling against each individual is measured by the wealth owned by that individual. In practice this wealth may be directly ascertained or indirectly guessed, but for the purpose of judging equity we must, of course, apply the prime measure, namely, wealth. The most serviceable method of measuring wealth is to take it as covered by income. Every tax must be paid out of income, and the obvious test of equity is whether taxes are distributed in proportion to income. All theories of taxation are, more or less, modifications of this test. The heavier taxation of incomes derived from funded property, as compared with the earnings of labour; the exemption of the minimum of subsistence; progressive taxation—all these are mere variants of the income test. What the practical man

¹ *Econ. Journal*, vol. x. p. 177.

has to do, is to get hold of the individual and his income, and treat them as best he can. To take a practical example : We have a farmer before us, and wish to know whether local taxes fall on this man according to his ability. What we do is to estimate his income, estimate his rates, and compare the result with whatever standard we take for our guidance. In a similar manner we must treat other classes of the population. The income of the individual may be a very imperfect criterion to the philosopher, but a financier will be very grateful if he gets anywhere near it. To both the income of the individual is always the leading criterion—the basis from which every conclusion on equity must start, the first point in the whole discussion of taxation according to ability. Are rates imposed, as best may be, according to the income of ratepayers ?

The Royal Commission face the problem squarely. They make proposals which start from the following clearly defined position : “We conclude that in general the funds for national services ought to be raised in accordance with the principle of *ability*” [commissioners’ italics].¹ This pronouncement is made unanimously.² In order to achieve this result, the reporters make three proposals :—

- (a) That the suggestions submitted by their witnesses for securing local taxation *in proportion to income*, either by direct assessment on the German model, or by indirect assessment on the basis of ex-

¹ Final Report, p. 14.

² Judge O'Connor dissents, but his views are outside the pale of reason.

penditure on rent, should be unhesitatingly condemned as impracticable in detail and objectionable in principle.¹

- (b) That special grants, amounting to considerably more than a million and a half pounds should be given out of central funds, in order that farmers and parsons may no longer be burdened by local taxation in a ratio which, *in proportion to their incomes*, is excessive.²
- (c) That no further extension should be allowed in the system of special grants and abatements, but that the rates of the whole population (including those of farmers and parsons) should be *reduced in general* by additional central subventions of about two millions or less.³

This is the position of the commissioners. In advancing these proposals, two assumptions are made which form the basis of the whole report. It is necessary that these foundations of the commissioners' proposals should be made perfectly clear.

FOUNDATION OF PROPOSALS

The first great problem which confronted the commissioners was the question of incidence : they had to

¹ Final Report, pp. 13, 14.

² *Ibid.* chap. viii.

³ See p. 209.—The proposals by Sir E. Hamilton and Sir G. Murray differ principally in this, that, while agreeing to the proposal that special exemption should be restricted to farmers and parsons, they would not, in the case of farmers, equalise matters by a grant out of central funds.

ask themselves, *Who pays rates?* The answer to this question has been rightly described by Mr. Goschen as the keystone to the whole position, for unless you know *whom* you rate, how can you act with judgment? "I feel the deepest anxiety," wrote Mr. Goschen, "that this question should be thoroughly sifted by every one who takes part in the reform of local taxation."¹ A more obvious proposition it would be impossible to lay down. The first fundamental position taken up by the commissioners is that this question must be left undecided. "We cannot hope in this Report to give a solution of these problems."² They deliberately refrained from making up their minds as to *who* is rated.

The consequence of this decision is to involve the commissioners in a number of contradictions. It is impossible to come to a single conclusion regarding rates without adopting some opinion as to *who* is rated. If you propose to give relief to a person, you first decide that he has been paying rates. If you advise that an additional burden should be thrown on some other person, you first decide that he has not been paying rates, or that he has not been paying enough. Not one step can be taken without a decision as to *who* pays rates. The commissioners came to several decisions, and as they had adopted no opinion on incidence, they became involved in many inconsistencies. In dealing with farmers, for instance, the assumption is made that the rates are paid by the tenant; in certain "parallel" passages we have an explicit reference to the burden of rates

¹ *Reports and Speeches on Local Taxation*, p. 149.

² Final Report, p. 11.

which falls on the owner. At another point we are told: "It may be argued, that rates in respect of residential property, in so far as their real incidence is on the occupier, are no more a burden on real property than if they were levied in respect of the beds contained in the house. Perhaps, too, some rates really fall on the consumer of commodities—for a grocer may be able to shift forward on to his customers some of the rates which he himself pays to the rating authority."¹ This "perhaps possible" argument is, in a current phrase, spatch-cooked into the middle of the Report, leaving the reader, if he likes, to draw the logical conclusions. These conclusions are exceedingly important, for if rates are "no more a burden on real property" than if they were levied on beds, then they can be no longer described as falling on real property exclusively. But this suggestive line of thought is not followed up, for immediately thereafter the commissioners pronounce the following judgment: The collection of rates, "by what is practically a single tax, imposed not in respect of all property, but in respect only of particular classes of property, is a feature of financial legislation which has, and could have, no parallel in the imperial system."² Dealing again with the shares of joint-stock companies, the commissioners lay down the doctrine that rates on industrial premises fall on those using these premises—that is to say, in the case of joint-stock companies on the shareholders, *i.e.*, as the commissioners express it, "on the owners of personal property."³ But opposed to this, they hazard the reflection, that "it may well

¹ Final Report, p. 11.

² *Ibid.* p. 15.

³ *Ibid.* p. 11.

be doubted whether a debt secured on immovable property is itself movable or immovable.”¹ That is to say, “While it is indisputable that in the first instance *ordinary* shareholders bear the burden of rates, ought a distinction to be drawn between them and the holders of debentures?”² This puzzling question draws the declaration, that ordinary shares are “undoubtedly movable and *non-ratable*.”³ The outcome of this confused state of mind is that some ratepayers are treated in one way and others in another way.

But while the practical result of ignoring incidence will be to open the way to prolonged agitation on the part of those persons who have received no doles, the scientific result is much more serious. In consequence of refraining to decide *Who is taxed*, the commissioners were led to treat the problem as *What property is taxed*. In taking up this position, the reporters leave the pale of finance and embark on “Chaos and ancient Night.” The conception of “ability” is essentially individualistic, and can only be applied to individuals. The attempt to solve the problem of equity without consideration of persons, but by reference to property, makes the whole Report a mere incantation with misleading figures and empty words. It means to count the barrels in the gun instead of counting the pellets in the bird.

The second foundation of the Report is to regard rates as a direct tax on real property; a property-tax not on the owner, but on the consumer—in short an absurdity. The commissioners say: “The courts

¹ Final Report, p. 10.

² *Ibid.* p. 10.

³ *Ibid.*

held that the intention of the legislature in introducing the expression *inhabitant*, taken with the injunction that the rate was to be raised according to the *ability of the parish*, was to authorise and require the overseers to include in the basis of their charge other classes of property and sources of ability besides the lands, houses, etc., specially mentioned.”¹ This, of course, is a misstatement. The courts added the well-known qualification: but that this other property must be local, visible, and profitable; that is to say, that in the intention of the Act practically nothing was to be rated except real property. By omitting at this point such an important clause the Commissioners reverse the meaning of the judicial interpretation of the statute. After showing how mines, timber, etc., were made ratable in 1874, the Report goes on: “It will be seen, that since the Act of Elizabeth very few additional classes of property have been expressly made assessable to local rates, while on the other hand a very large class has been exempted.”² The properties which were in course of time exempted, till finally Parliament completed the work by exempting stock-in-trade,—these properties are dealt with at length in chap. xi. of the Report. Personal property is described as “the largest exemption.” In brief, the defect from which rates suffer is diagnosed as incomplete incidence on property. “The issue does not rest between owners and occupiers of ratable property (*i.e.* persons), as might be imagined from some of the proposals which have been submitted to us, but both these classes have, as we consider, legitimate cause of complaint, owing to the fact that the basis of local taxation is too narrow.”³

¹ Final Report, p. 2.

² *Ibid.* p. 2.

³ *Ibid.* p. 16.

Certainly this is the popular conception of the case. The current ideas regarding rates are, for instance, clearly expressed by Mr. James W. Lowther in a pamphlet he recently wrote on the subject.¹ After quoting certain estimates made up by the Inland Revenue Board, which place the annual value of ratable property in the kingdom at 210 millions, and the annual value of non-ratable property at 229 millions, Mr. Lowther argues: "According to these figures, therefore, the local rates fall exclusively on less than half the property in the country—to be strictly accurate, the percentage is 47·8 per cent, and the remaining 52·2 per cent contributes *nothing* towards local rates directly, but only indirectly through the Treasury subventions and payments out of Local Taxation Account" (*i.e.* through subsidies and doles).

Quotations without number from the speeches and writings of leading men might be given to show how unquestioning is the belief in this fallacy. Lord Salisbury, for instance, speaking at Exeter in 1892, delivered himself thus: "There is no such crying injustice in this country as the system which places upon the owners of lands and houses the support of the poor, and, where there are School Boards, the education of the poor. These are matters to which all the wealth of the country should equally contribute. There is no reason whatever why the holders of the 750 millions of consols should go absolutely free, and leave to their poorer neighbours who occupy or own lands or houses the duty of maintaining the poor and providing education. I know that this question is full of difficulty. I know that it has baffled statesman

¹ *Local Taxation*. By Rt. Hon. J. W. Lowther, 1901.

after statesman, but I have a strong belief that there is not sufficient moving force behind, and that if I had the number of yeomen whom I should like to create in this country, we should very soon see the system of rates put on a more equitable footing."

We are so accustomed to be guided by Lord Salisbury's opinions, that we must examine this passage more closely. Long experience has taught the country that the views which Lord Salisbury has formed on questions of foreign policy and on government in general are such as we may accept with confidence. But here we have a reference to a question quite apart, full of technicality, a problem of finance. Lord Salisbury's judgment represents, not the result of his independent reflection, but rather a repetition of current beliefs. Now, to take the main positions very briefly, we find that Lord Salisbury, in the first place, makes reference to the local rates placed on owners of land, that is to say, shifted on to owners of land, for themselves owners in England pay nothing at all, *qua* owners. This part of his argument the late Premier abandoned by implication three years afterwards when he passed the Dole Act, for that Act is only justified by the conviction that not owners, but occupiers, pay rates. Further, Lord Salisbury contrasts the positions of holders of consols and occupiers of houses. We are asked to believe that occupiers of houses bear the burden of rates, while holders of consols "go absolutely free." Are holders of consols a gipsy tribe, who wander about houseless and homeless? It seems more in accordance with common observation to assume that foxes have holes, that fowls of the air have nests, and that holders of consols have houses. In that case

holders of consols and occupiers of houses are not mutually exclusive categories. Again, Lord Salisbury describes occupiers of houses as the poorer neighbours of the holders of consols. We have, in this sentence, the most perfect epitome of every popular misconception. It advances the proposition, that equity will be attained by taxing "other" property. Is such property not held by all classes of people? Are there not many poor people who own a little personal property, the result of much careful scraping and saving? Are there not a still greater number of people of exceedingly modest means, whose property is personal property and nothing else? Would equity be attained by combining the present rates on occupiers of houses with a new tax on all kinds of personal property? Would that not simply throw double taxation on poor and moderately wealthy occupiers of houses? The present writer hopes that preceding chapters have made clear what is the fallacy underlying this opinion, namely, to judge an indirect tax by the standard of a direct tax. Rates must not be condemned because they are not imposed "on" every kind of property. A tax on the owners of property could be attacked on this ground, but not a tax on the occupiers of property, for such a tax is itself a guess at general ability. It may appear in the sequel, that poor and moderately wealthy persons are too heavily rated, that their general ability is improperly guessed; but equity will never be attained by imposing taxation on the whole of that absurd product of the imagination, "non-ratable property." One might as well supplement the beer duty by direct taxation of everything that is not beer.

Mr. A. J. Balfour's views are equally emphatic, and

are indeed quoted by the Royal Commission in support of their conclusions:¹ "the Chancellor of the Exchequer thought, as the Tory party have always thought, and as the Gladstonian party of 1880 thought, that to throw the cost of every improvement in education, in the dwellings of the working classes, of every improvement made, and every action taken by a local authority—to throw the cost of all these things on one kind of property and on that alone, was intrinsically inequitable, and ought to be remedied. And my right honourable friend has remedied it, as I think, by his admirable policy of subvention from Imperial taxation to local taxation. By this policy a part, though not the main part, of the cost of carrying out all the schemes and projects forced upon local authorities by modern ideas no longer falls solely on one kind of property, and on that alone."

But if such expressions of opinion by people who in matters of finance are, after all, only amateurs, tended to confirm the commissioners in their conclusion that this "admirable policy of subvention" solved all difficulties, there were two facts which should have made them hesitate. One of these danger-signals has already been referred to, namely, the circumstance that the very reason for the appointment of the Commission was the failure of twelve million pounds of subventions to remove occupiers' discontent. The second note of warning was the evidence of the sixteen expert witnesses. This evidence was as explicit as it could be made, and the final conclusions of the commissioners are directly opposed to it.

¹ Final Report, p. 20.

As a guide in the distribution of taxation according to ability, the Commission adopted a classification of all taxes, both national and local, which had been devised by two of its members: Sir Alfred Milner, at that time head of the Inland Revenue Department, and Sir Edward Hamilton, Assistant-Secretary to the Treasury. The classification proceeded on the following basis. It distinguished between—¹

- (1) Taxes incidental to the ownership, occupation, and transfer of *ratable* property.
- (2) Taxes incidental to the ownership, occupation, and transfer of *non-ratable* property.
- (3) Taxes not incidental to property.

Under one or other of these three groups there was brought every tax and impost, both local and national. It has already been pointed out that ownership of property and use of property cannot be classed together. A fundamental distinction exists between taxes levied on persons in respect of their ownership of property, and taxes levied on persons in respect of their occupation, use, or transfers of property. The first class represents direct assessment, the second indirect assessment. Taxes incidental to ownership are connected with the claim that every kind of property should be taxed in order to attain universality, which, in this case, is synonymous with equity. To class indirect taxes under the same category, and by doing so to extend to them a similar method of reasoning, does not lead to the attainment of equity, but to the

¹ See *Volume of Memoranda*. In the Final Report the classification is used at p. 15.

perpetration of absurdity and injustice. By treating ownership and occupation on the same footing, it is easy to prove, as is done in the table, that land-tax, inhabited house-duty, and local rates must all be brought under the heading: "Incidental to ratable property." Where else in the table could a place be found for them? The connection, however, is purely verbal; the idea is utterly false.

The classification was submitted to the expert witnesses. In the clearest terms it was condemned. It is opposed to the most elementary principles of finance. The opinions of the leading witnesses are worth quoting:—

Rt. Hon. Leonard Courtney.—I am afraid I am wholly unable to accept the classification of taxes contained in the paper, Table D. It appears to me to proceed on an entirely wrong method. The error running through the table lies in regarding the problem as one of adjustment between *things*, instead of between persons.¹

Sir R. Giffen, K.C.B.—A classification of taxes may be clear and precise, without the classification itself being useful. This remark applies to the classification in the table referred to.²

Professor Sidgwick.—An entirely different division is needed before we can arrive at any conclusion on the question of equity.³

Professor Marshall.—I submit that the present inquiry must be taken to relate not to the distribution of the burden of taxation between different kinds of property, but . . . between different classes of persons.

Professor Bastable, after pointing out the errors contained in the table,⁴ concluded by saying: "I would venture to point out that such discussions are unnecessary for the purposes of the Commission."⁵

Mr. Cannan.—The classification is valueless for the purposes

¹ *Volume of Memoranda* (C. 9528 of 1899), p. 85.

² *Ibid.* p. 93.

³ *Ibid.* p. 112.

⁴ *Ibid.* pp. 137, 138.

⁵ *Ibid.* p. 139.

of the Commission, because it overlooks the considerations mentioned under Question 1.¹ (Mr. Cannan, in answer to this question, pointed out, like the other witnesses, that property "cannot contribute to taxation," and that the idea that there can be equity as between different classes of property is fallacious.)²

This consensus of opinion among their expert witnesses the commissioners unfortunately disregarded. The inevitable result is, that their work has been rendered valueless. Their witnesses told them that "an equal division of all taxation between real and personal property would not, of necessity, be an equitable division."³ The experts assured them that any confusion of this kind would render their labours, "however arduous and prolonged, wholly nugatory, if not actively pernicious."⁴ And yet the commissioners embodied in their report this very classification,⁵ and based their conclusions on it. It is true, they salved their consciences by stating, with reference to the figures: "It is impossible to draw any inferences from them without making qualifications which render the calculations almost useless."⁶ But having made this compromising concession to their witnesses, the reporters introduce the said classification four pages further on. It is on its evidence that they contend in their main conclusion: "The collection of so large a sum⁷ . . . by what is practically a single tax,

¹ *Volume of Memoranda* (C. 9528 of 1899), p. 162.

² *Ibid.* p. 160.

³ *Ibid.* p. 219.

⁴ *Ibid.* p. 160.

⁵ *Final Report*, p. 15.

⁶ *Ibid.* p. 11.

⁷ The commissioners eliminate various items before calculating rates, for instance water-rates. It is in accordance with official practice to adopt this course, but it is not clear why a water-rate, assessed according to occupiers' rent, should not be treated on the same basis as other branches of local taxation.

imposed, not in respect of all property, but in respect only of particular classes of property, is a feature of financial legislation which has, and could have no parallel in the Imperial system.”¹

These are the two foundations of the commissioners' report: (1) To leave the question, *Who pays rates?* undecided, thus neglecting the individual; (2) to regard rates as exclusive burdens on ratable property, as proved by the classification, thus calling for the taxation of “non-ratable” property.

THE PROPOSALS

The proposals, which are based on these two conclusions, consist of suggestions for new taxes on property “not liable to pay rates.” The “non-ratable” property in the country the commissioners estimate to be three times as great in amount as the “ratable” property.² This huge untapped reservoir—three-quarters of the national wealth—is to be made accessible for the relief of the one-quarter which is now exclusively rated. In order, however, that no one might say that the evidence of the expert witnesses had been disregarded, the following saving clause is judiciously introduced into the report: “It may be argued that it would be more accurate to say that

¹ Final Report, p. 14.

² *Ibid.* p. 20. These figures represent the property coming under assessment for death-duty year by year, and it is hardly necessary to draw the readers' attention to the absurdity of taking funded, or realised property alone, as the index of tax-bearing ability. Incomes derived from personal exertion are omitted from calculation in the commissioners' figures. The fallacies into which the taxation “of property” theory leads are endless.

persons contribute in respect of properties; but it is not necessary for us to express an opinion on this point (which is in part merely verbal), for, in any case, it seems clear that equity cannot exist, strictly speaking, as between properties, but only between the persons who have interests of various kinds in these properties."¹ The reader will observe that it is not very easy to pin down the commissioners to anything precise. However, the main thing is the proposals, and these are definite enough.

Having shaken off the evidence of the experts, the reporters set up their own standard of equity, and got to work at the taxation of "non-ratable property." A number of suggestions are made to this effect, but all have one thing in common. The central government is to impose the taxes in question and distribute the proceeds in subventions, for historical experience is declared to have proved that local authorities cannot get hold of personalty. The beer-duty is one of the taxes approved of by the majority as a means of relieving "ratable" property.² Sir E. Hamilton and Sir G. Murray argue, on the other hand, that the beer-duty is not suited to the object in view, because it "cannot be said to be derived from personal property, nor indeed from property at all," and is, therefore, not a means of relieving ratable property.³ The proposal of the majority, as well as other schemes of a similar nature, are not new, but are merely expressions of approval with the policy which has been adopted since 1888. The principle is, however, to be extended. For this purpose the commissioners suggest the in-

¹ Final Report, p. 10.

² *Ibid.* p. 21.

³ *Ibid.* p. 114.

stitution of an entirely new tax, which the central government is to levy on "non-ratable" property exclusively. Three forms are suggested for this special tax on the three-quarters of the national wealth which at present "go absolutely free:"—

- (1) A tax or special duty on *income* derived from non-ratable property.
- (2) A special tax on non-ratable property *passing at death*.
- (3) Stamps upon all documents representing non-ratable property, or employed in transactions relating thereto."¹

The Board of Inland Revenue was consulted about the practical feasibility of such taxes, and in a very forcible manner it pointed out the technical difficulties which would have to be overcome.² The commissioners, however, were so anxious to find some method of taxing the three-quarters of national wealth which, in their opinion, are "unrated," as proved by the classification, that they issued a counter-memorandum,³ and described the scheme in their final report as "deserving favourable consideration."⁴

Such proposals are opposed to first principles. They can only be described as fantastic. It is gratifying to observe that their authors make no pretence of trying to carry them out. If equity is judged by the classification, and if the amount of property in the country is taken from the table, namely 25 per cent ratable, and 75 per cent non-ratable,⁵ then onerous services ought to be defrayed by rates only

¹ *Evidence*, vol. iv. p. 205.

² *Ibid.* vol. iv. pp. 205-221.

³ *Ibid.* p. 221.

⁴ Final Report, p. 23.

⁵ *Ibid.* p. 20.

to the extent of one-quarter, while three-quarters ought to be met by subventions raised by the special tax. No attempt is made to apply such a solution. The two additional millions of relief which the commissioners propose would not make local taxation conform to even an approach to statistical equity.

Five out of fourteen of the commissioners dissent from the portion of the above scheme which involves introducing specially devised taxes on "non-ratable property."¹ These members agree to the proposition that personal property has been exempted from local taxation and ought to be made contributory, but as a means to this end they propose that subventions should be given out of national funds in general, and not out of the proceeds of special imposts. The scheme is distinctly illogical on the assumptions made by the reporters. For if "ratable property" is to be relieved, relief should be given by special taxes and not by the ordinary national taxes, which cover "ratable" as well as "non-ratable property." But the minority adopted the plan in consideration of the practical impossibility of imposing a special tax solely on "non-ratable property." In itself the proposal is a mere variety of the main plan, and involves the same fundamental positions. Judged by the maxims of financial science, neither the one scheme nor the other holds out the slightest hope of success.

But this objection may not be sufficient to condemn the projects of the commissioners. In actual affairs it is often necessary to go contrary to the rules laid down by pure theory. A scheme may have many defects, may in many ways fall short of scientific perfection,

¹ See Reservations (Final Report, p. 63).

1, if it offers a solution of a pressing difficulty, it is an undoubted claim to be accepted. There was much in Mr. Trenchard's remark, "that a public man ceases to be practical the moment he becomes logical."

As far as the members of the Commission are concerned, they place an implicit belief in grants (a) from "non-ratable property," or (b) from national taxation in general, as agents for relieving "ratable property," and thus bringing local taxation into conformity with equity. Indeed they go further. They consider this method to be the only solution of the problem. Numerous witnesses brought forward proposals for local taxation according to income, namely, a direct local income-tax, or an indirect tax confined to the rent of inhabited houses. But taxation in proportion to income, which is the only conceivable method of attaining equity, was set aside by the commissioners as objectionable in principle and impracticable in detail¹—farmers and parsons always excepted. The proposals to reconstruct local taxation so that it may attain the standard of a tax according to income, are treated with the utmost brevity and with thinly-veiled contempt. Out of a final report of 189 pages, not to mention two interim reports, only a few words more than *one* page is devoted to the consideration, or better, the condemnation, of the whole idea of taking income as the standard of contribution.² One of the most eminent of the commissioners even commenced his examination of a witness with the words: "Assuming that your proposal is quite impracticable,

¹ Final Report, pp. 13, 14.

² *Ibid.* part of p. 13 and part of p. 14. In the Report by Sir E. Hamilton and Sir G. Murray the subject is only cursorily referred to. See pp. 175 *et seq.*

have your association considered. . . .”¹ Unanimously the following conclusion is reached: “The grievances which we have set forth cannot be remedied without either a direct contribution from the Exchequer” (the minority proposal) “or an extension and development of the system of assigned revenues which has been in existence since 1889” (the majority proposal).²

The position is this: Equity, that is to say, a local tax, according to income, is out of the question. The alternative is grants in reduction of rates, in order that so-called non-ratable property may contribute. Will this device at least remove the grievances of rate-payers?

THE EFFECT OF THE PROPOSALS

The belief in the efficacy of grants in relief of rates is so widespread that the problem must be investigated with care. In the first place, it must be considered from the point of view taken by the commissioners. Let us admit their contention that individuals may be disregarded, and that we have only to deal with property and rate-payers in general. In this light let us test the scheme. There is no error in principle contained in the proposal from the commissioners' point of view. It is undeniable that if the national taxes are equitably imposed (which need not be argued), then contributions from these taxes will lessen any inequity contained in local taxation. It must, however, be clearly understood that these contributions will only operate by reducing local taxation as a whole, and not by making it in itself more

¹ *Evidence*, vol. iii. Q. 16368.

² Final Report, p. 14.

equitable. The proposition is simply this: no local taxation, no inequity; less local taxation, less inequity. It is not reform, but abolition. Apart, therefore, from the consideration as to whether it is desirable to partially abolish local taxation, and thus reduce it to harmlessness, the proposal depends for its value entirely on the extent to which abolition is carried: less abolition, more inequity. The whole problem is a question of the size of the grants in comparison to the rates. Grants altogether would be perfection; how much less are we asked to put up with?

Now the local rates which are at present levied and admitted to be inequitable are about £20,000,000.¹

¹ Namely, the rates levied for national purposes. The local expenditure on national purposes is as follows (year 1898-99):*—

Poor relief	£8,662,755
Lunacy	2,215,232
Police	5,037,636
Criminal prosecutions, etc.	188,114
Education	8,244,961
Highways, streets, etc.—in all	£8,500,000
—say one-quarter	2,100,000
Registration and valuation	650,545
Loans repaid and interest—in all about	
£3,000,000, say †	2,500,000
Salaries, establishment charges, etc.—in	
all £3,600,000, say one-quarter	900,000
	<hr/>
	£30,499,243
Met out of central grants, say ‡ £9,795,024	
Rates	20,704,219
	<hr/>
	£30,499,243

* Local Taxation Return, 1898-99. Parliamentary Paper No. 324 (Part v.) of Session 1901.

† The payments for debt charges are not grouped in quite the same way as the payments for other purposes. The sum given is probably too small.

‡ The total grants (as per above Return, p. 52) are £11,795,024. Of this sum about two millions is given for purposes which are not specified. See explanation given below, pp. 294, 295.

The grants by which the commissioners propose to remove the inequity contained in this sum of taxation amount in all to less than £2,000,000. The exact sum recommended by the majority is £2,601,000,¹ but as part of this money is for entirely new expenditure, which commended itself to the reporters, we must reduce the total sum by the amount of this new proposed expenditure.² The net amount would be rather below £2,000,000. Sir E. Hamilton and Sir G. Murray propose to repeal the grant under the Agricultural Rates Act, and thus reduce the additional charge on the Exchequer to £1,525,000.³

The question may now be put: Is it in the least probable that this paltry abolition will make rate-payers content? If grants represented a real remedy, and not merely a surgical operation, there might be hope that the administration of a small corrective would lead to a more healthy condition of the whole. But when the patient's relief depends entirely on the extent of the amputation, such petty scraping is useless. The commissioners mistake the nature of grants in relief. They make the assumption that subsidies possess the miraculous qualities of the leaven which a woman took and hid in three measures of meal. They expect the little leaven to leaven the whole lump.

We must also remember that the report proposes that grants should not be annually reconsidered, but fixed for a definite period. Now, local taxation is growing rapidly, and shows no signs that it has reached its maximum. In a few years, therefore, we may expect to be exactly where we are to-day. The

¹ Final Report, p. 32.

² *Ibid.* chap. vii.

³ *Ibid.* p. 141.

rate-payers' grievance, notwithstanding the new grant, will be as big as ever. Discontent will revive, just as it revived after Lord Melbourne had given a few thousand pounds in relief, and as it has revived to-day, after twelve millions have been given. The existence of rates implies the existence of inequity. There will be no end to subventions. The process will be interminable.

So far we have considered the effects of the commissioners' proposals viewing local taxation as a whole. The scheme must be described as inadequate. It claims to make twenty millions of taxes equitable, not by adapting contributions to a better standard, but by reducing them in general amount. For this purpose the suggested diminution is not sufficient. The man who to-day has a grievance in paying 2s. 6d. per £ will not be content if he only pays 2s. 3d. per £. But the proposals are not only inadequate: the very idea itself fails to meet the case. It is impossible to accept the commissioners' point of view that individuals may be left out in considering equity.

The foundation of the discontent in regard to "national" rates is the unequal proportion in which the burden falls on different people. It is not only the grievance of people with moderate means that house-rent bears a larger proportion to total income in their case than it does in the case of the wealthy; manufacturers also, and those engaged in commercial pursuits, complain that rent bears in various occupations a most unequal ratio to the income earned and therefore to tax-bearing capacity. This injustice, which is the only complaint of the rate-payer for national purposes, will not be affected in the very smallest degree by subventions in general reduction.

Even within the same class this is obvious. The man who complains that he has to pay £10 in rates, while his neighbour of equal wealth only pays £5, will not be in any way satisfied if both taxes are reduced in equal proportion. His position will be exactly as it was before. For this reason grants cannot remove grievances.

The special proposals for distributing grants which have been made by the chairman of the Commission, Lord Balfour of Burleigh, and by Sir E. Hamilton and Sir G. Murray, are not only useless as a reform for securing contribution according to ability, but very much worse than useless. The leading idea of the plan is to distribute relief according to the needs of various districts, so that a poor district which is heavily burdened with rates would get a larger subsidy than a rich district.¹ The reduction of rates produced by the grants would thus be unequal in the different districts. Some local areas would, on the proposed plan, get a good deal of the inequity of rates removed, but others would benefit less. Still others would get more inequity than they have at present, for it is contemplated by the reporters that existing grants to wealthy places would be reduced, even removed entirely; concurrently inequity would be increased. But in each district by itself the relative positions of the various rate-payers—one man compared with his neighbour—would be precisely as before. Graduated subsidies, therefore, will not reform the deficiencies of rates any more than simple subsidies. They will only introduce new grievances as between district and district.

¹ Final Report, pp. 84 and 136.

An exceedingly thoughtful article in the *Edinburgh Review*¹ is partly devoted to criticising the proposal for graduated subsidies. It is unnecessary to enter into the details here, for the project can be ruled out in a very much more summary manner, but in his final and main objection, the reviewer has placed his finger so accurately on the weak spot of the scheme, that his opinion may be quoted. Very properly he points out that graduated subsidies are directly contrary to the fundamental assumptions on which the commissioners' conclusions are based. If equity requires that "non-ratable" property should contribute to the cost of national services—and on this point the commissioners are unanimous—it would be most unfair that this property should contribute nothing in a district which happens to be well off, in order that it may bear $\frac{3}{5}$ ths of the national services² in a district which happens to be less well off. The reviewer therefore concludes that the commissioners, "in their laudable desire to redress the inequalities in local taxation, have overlooked their own premise"—viz., that equity demands that the cost of national services should be partly borne by subventions, so as to relieve "ratable" property. He disapproves of the scheme as contradictory to the rest of the report, which, of course, it is. The idea of graduated relief has really been copied from France and Germany, where such a system is established.³ The theory is one of

¹ Local Taxation (January 1902).

² These figures are taken from the Commissioners' Report. See *Edin. Rev. loc. cit.* p. 14.

³ Von Reitzenstein, *Ueber finanzielle Konkurrenz von Gemeinden, Communalverbänden und Staat*; also Schönberg's *Handbuch, Kommunales Finanzwesen*, or similar article Frankenstein's *Handbuch*.

the most important contributions to the science of local finance, and it is to be hoped that it will be adopted in England, if conditions parallel to those existing on the Continent are ever introduced into this country—namely, that local taxation is made equitable as regards the contributions of individuals. But the object of the graduated subsidy is not to correct unjust incidence. In recommending the plan for this purpose in England, the commissioners have dealt with a foreign institution regarding the nature of which they were imperfectly informed.

CONCLUSIONS

Summing up the results of this examination of the proposals of the commissioners for the treatment of local taxation for national purposes, it seems clear that any scheme which leaves unaltered the relative positions of the several rate-payers, ignores the fundamental nature of the conception of "ability," and must therefore be useless. Persons pay taxes, not property. Grants in general reduction of rates can, under no circumstances, produce local taxation according to the ability of the contributors. As this is the only remedy which the Royal Commission has proposed, we must reluctantly conclude that it has not recommended a scheme which will remove existing grievances. The reason of the failure is that the commissioners, in answering the reference made to them, "whether all kinds of real and personal property contribute equitably to local taxation," were unaware that the equity of contribution depends not on whether every possible kind of property is taxed in every conceivable

kind of manner, both direct and indirect, but on whether the property according to which taxes are levied is distributed in a proportionate ratio, either as regards ownership, or as regards use or consumption over the various classes of contributors. They ignored the individual and only considered the herd. It was inevitable that from the standpoint of the individual, which is the test of equity, their scheme should be a failure. The expert witnesses endeavoured to remove these misapprehensions, but only one of the commissioners allowed himself to be guided by the evidence. The suggestions for reform which are made by Judge O'Connor are vitiated by untenable views regarding the ownership of land, but his Honour certainly grasps the situation. He justifies his recourse to a separate report by thus describing the attitude taken up by his colleagues: "They have, as it seems to me, concerned themselves principally with the relief of local tax-payers as a body, and with the mode in which such relief should be distributed, while scarcely touching the question of the equitable imposition of burden between the different classes of the rate-payers themselves."¹

In two instances, however, the commissioners consented to judge individual ability. There was, in the first place, one class of rate-payers whose hardships were utterly unbearable: the farmers. For three-quarters of a century these men had been pressing their claims on successive governments, and invariably the legislature answered with a general grant in reduction of rates. In desperation the farmers took the matter into their own hands. They calculated their

¹ Final Report, p. 177.

incomes and their rates, calculated the incomes of their neighbours and their rates, and published the figures. Eventually the government had the acumen to grant farmers special relief. The commissioners had similar evidence placed before them, and on the strength of the representations they consented to judge ability by income in the special case of farmers. They expressed approval of the policy of the government, and recommended its continuance. Next came the clerical owners of tithes and tithe rent-charges. They also succeeded in convincing the commissioners that their ability must be measured in the same way. The commissioners, indeed, were greatly struck with the logical cogency of the case, and immediately issued an interim report praying the legislature to consider whether it was not true that a clergyman's ability to pay taxes was measured by his income. The government acquiesced and gave a grant accordingly.

But farmers and parsons were the only classes of rate-payers who put clearly defined proposals for their relief before the commissioners. Other rate-payers only grumbled in a general way and begged to be relieved from their hardships. The commissioners were thrown on their own resources. After having dealt with persons in the shape of farmers and parsons, they made an easy transition to properties. Beginning a new paragraph they said: "There remains the case of shops, manufacturies, railways, and other industrial properties."¹ Regarding these, it does not "appear to us that the full annual value of any of these properties is, generally speaking, out of proportion to their respective abilities."² As for the poor, it was ad-

¹ Final Report, p. 38.

² *Ibid.*

mitted that in the light of a tax according to income, house-taxes ought to be graduated. For "the smaller a man's income is," reported the commissioners, "the larger is the proportion of it which he is obliged to spend on house accommodation."¹ But the commissioners refused to consider this claim, because they "greatly doubt the expediency of introducing the principles of graduation and exemption into local taxation."² This categorical opinion is an indiscretion in view, namely, of the following passage: "We suggest that for all burdens which are of an onerous character . . . agricultural land should be assessed at one half of its ratable value, and that in respect of other burdens . . . the farmer should continue to be rated at one-fourth."³

In refraining from recommending an extension of the "doles" system the commissioners have acted with commendable prudence. The cost of the remedy is prohibitive. But the principle which underlies the dole is the only conceivable solution of taxation according to ability. It recognises the claim that individuals should contribute in proportion to their incomes. You cannot divide the population into two groups—one group containing farmers and parsons, which is to be rated on scientific principles; and another group containing the rest of us, which is to be treated with amateur specifics. Such a division the commissioners have made. Their report, therefore, does not contain recommendations which will bring about a permanent settlement. Indeed, the suggestions made are more than futile: they are dangerous, for they give sanction to the most ignorant popular

¹ Final Report, p. 14.

² *Ibid.*

³ *Ibid.* p. 38.

theories. The expert witness was only too correct in his prophecy that the labours of the Commission, "however arduous and prolonged, would be wholly nugatory if not actively pernicious." The public are more hopelessly confused than ever by the report,—

Chaos umpire sits
And by decision more embroils the fray.

CHAPTER V

LOCAL TAXATION ACCORDING TO ABILITY

"TAXATION according to ability" is a term frequently applied and seldom defined. The most convenient course to take in this chapter is to follow popular usage, and employ the word "ability" for what it is worth. This much is perfectly certain: "according to ability" can mean only one thing, namely, contribution in some proportion or other to the income of each individual. What the proportion should be may be left to philosophers. The discussion will go on till the end of time, and the technical difficulties in the way will not be overcome till after the end of time. It is more useful to plunge at once into practical politics and investigate the subject with an actual example before us. We may briefly review the methods employed by the central government. The national system is an actually existing fact, and it has been avowedly constructed according to the principle of ability.

On the one hand, we have the taxes imposed according to the ability of the tax-payer by a direct

assessment. The government approaches each of its subjects, demands a statement of their wealth (either annual value or capital value), and imposes a tax thereon. In an ideal community one single direct tax would suffice for all requirements. In the actual community composed of human beings, there are three principal drawbacks to even the best single tax. (1) Fraud; (2) the impossibility of determining true ability; (3) the electorate. The third impediment to a single tax is a very important one. The theories of self-government are imposing and fascinating. As Sir Alfred Milner said in his book on Egypt: We all "take our hats off" to them.¹ But unfortunately they can only be applied very roughly indeed. Even if we could have the ideal income-tax—graduated, exempting the minimum of subsistence, sparing the earnings of personal exertion—it would never do to rely on it alone. People would become impatient of their contributions to the public purse. Army reformers would be hooted by an angry audience. The Navy League might put up its shutters. We have two taxes assessed directly on the ability of each individual: the income-tax on annual value, the death-duty at capital value. The death-duty is a general property-tax which is taken not annually, but in a lump sum at a moment when fraud is more difficult than during lifetime. The method is a very rough one, and the payment has the appearance of being so heavy, that the tax is exceedingly unproductive. The highest recorded yield occurred in 1900, when the sums paid to the national Exchequer were £14,000,000. The average amount is about

¹ *England in Egypt*, p. 378.

£12,000,000.¹ The yield of the income-tax depends entirely on the rate imposed per £. Taking 1900, the last year before the war-tax was put on, we find that at 8d. the income-tax brings in £18,750,000. In all, direct taxation thus raises about £30,000,000, namely—

Death-duty	£12,000,000
Income-tax at 8d.	18,750,000

The remainder of our taxes are based on the principle of indirect assessment. Together these taxes yield about £66,000,000. Namely, for the year 1900—

Beer-duty	£12,000,000
Spirit-duty	24,250,000
Wine-duty	1,700,000
Tobacco-duty	11,000,000
Other customs and excise duties	7,000,000
Stamps (exclusive of fees, patent stamps, etc.)	8,500,000
Inhabited house-duty	1,670,000

These taxes divide themselves into two groups. Firstly, indirect taxes, which by themselves attempt to estimate the ability of the individuals who pay them, and which are really an indirect income-tax. Secondly, those which make no attempt to estimate ability. Of the first group we have only one example in the national system: the inhabited-house-duty. The yield of this tax is only $1\frac{1}{2}$ millions, and the line of exemption is drawn so high that the tax is only paid by the occupiers of 1,152,000 houses in the kingdom.² The second group of indirect taxes—namely,

¹ For the five years, 1897-1901, the average sum paid into the national Exchequer was £11,961,000.

² Year 1899-1900.

those which make not even the show of an attempt to estimate ability—raise the enormous total of about 65 millions. The statesman takes his many-barrelled gun and blazes into the brown of the covey. There are many justifications for these taxes. The most important is the difficulty connected with direct assessment; a very important advantage is, also, the ease with which most indirect taxes, *e.g.* customs and excise, can be tapped at the source, so that people do not know that they are paying them. It is one of the few things we have to be grateful for about taxation—this blissful ignorance. Imagine the change that would take place in our tempers if we were irritated by the thought of an exciseman every time we lit a pipe, or made other contributions to the Exchequer. It would be perfectly unbearable. The equity, also, of these taxes must not be judged by regarding them by themselves. No one supposes that we all drink tea, or champagne, smoke tobacco, use bill-stamps, and take out gun-licenses in proportion to our means. The owner of a small or moderate income is heavily burdened by these imposts, but to equalise matters a certain limit of total exemption is allowed from directly assessed taxes, while partial exemption is given to a considerable range of incomes, and graduations to those who pay death-duty.

That is how British politicians solve the practical problem of raising £100,000,000 according to the principle of ability. Should it be the object of the reformer of rates to copy this system? If we wish to know what such a project would amount to, we must go to France. The French central government has, roughly speaking, three great taxes assessed accord-

ing to ability: the *contribution foncière*, on owners of land; the *contribution mobilière*, "on movables"; the *contribution de patente*, on income derived from trades, professions, industries, etc. The assessed basis of these taxes is placed at the disposal of each local authority, which imposes *centimes additionels* for the purposes of the district. Without going into details, we may say that these taxes are supplemented by local custom-duties, the famous *octrois*. To apply such a system to England is neither desirable nor practicable. The idea of local customs-duties is itself opposed to all our habits. Two of the most eminent witnesses consulted by the Royal Commission, Mr. Courtney and Sir Robert Giffen, have suggested *octrois* for this country, but their proposal hardly comes within the sphere of practical politics. Such taxes can only be defended on two grounds: (a) that long habit has made the people familiar with the imposts, so that they have become a part of the national life. This condition exists in France, but not in England. (b) That the sums to be raised are so large that the authorities must take into their system taxes which make no attempt to realise equity, and which are nothing else but means of collecting money by hook or by crook. This condition exists in our national finance, but hardly yet in local affairs. So difficult, however, is the problem of raising money, that the new German law of 1893 makes express provision for introducing *octrois*, but only if the local authorities themselves desire it.¹

We must, on the whole, conclude that the ideal to

¹ The author has discussed the question at length in the *Economic Journal* of March 1901.

set up is not to reproduce in miniature the expedients resorted to by the central government. We can only take a part of the national scheme of taxes, and there cannot be a moment's hesitation that the part to chose is that containing the imposts which are deliberately assessed according to the ability of the individual. For practical purposes that means taxation based on income. Such a test we must have, otherwise it is impossible to realise equity.

OBJECTIONS TO LOCAL TAXATION ACCORDING TO ABILITY

The Royal Commission protests that this is aiming at an object which is not only unattainable, but indeed nonsensical. Both forms of income-tax, the direct assessment and the rent-tax, were suggested by witnesses. Regarding such proposals the reporters say: "The very conception is obscure."¹ "It is clear on reflection that a local income-tax tends more and more to be incompatible with modern social and political arrangements."² In answer to these assertions we may reply that the solution offered by the commissioners themselves is—

- (1) Based on a contradiction of every principle of finance.
- (2) Is in practice completely useless.
- (3) Is full of danger to independent local government.

As regards the alleged incompatibility of a local

¹ Report, p. 13,

² *Ibid.*

income-tax with modern conditions, which is clear "on reflection," we may point to the fact that rating according to the income of individuals has been faced and accomplished in the two leading countries of the continent. In Germany, as the commissioners were explicitly informed by their witnesses, by direct assessment of income; in France by indirect assessment, according to as near a measure as is attainable. Many of the minor countries on the continent have also systems of local taxation which are more or less thought out, or, as foreigners say, "thought through," while we stand alone with our curious monument to mediæval wisdom and seventeenth century judge-law.

The commissioners have urged two reasons against making attempts to impose rates according to income. Both these objections flow from the fact, which has already been referred to as the characteristic of local taxation—namely, that local areas are limited in size.¹ There is a fundamental distinction in this respect between central and decentralised finance. A nation, in regard to taxation, stands as a world by itself.² A state assumes that every one within its boundaries is exclusively its own subject. "Every inhabitant" of the United Kingdom is made to contribute towards the fortification of the Thames, whether he lives at John o' Groats or at Land's End. The assumption on which national taxation is founded is not far removed from reality, because it seldom happens that a person "belongs" to more than one national boundary. In the case of local taxation this universality does not exist. People may "belong," and

¹ See *ante*, p. 73.

² Gerstfeldt, *Städtefinanzen in Preussen*.

indeed frequently do "belong" to more than one local area.

The commissioners, therefore, argue against rating according to income (which is synonymous with rating on the principle of ability). "In the first place, it is probably becoming less and less common to find persons in receipt of large incomes who have a single fixed place of residence, and the problem at once arises as to the allocation of the taxable income among the two or more districts in which the recipient from time to time resides."¹ "To what locality does an income belong? To the place or places from which it is derived? Or, to the place or places where it is enjoyed?"² "The very conception is obscure."³ That is not the case. The conception is complicated, but perfectly obvious. The only difficulty is about making up your mind. You have to decide what you will do. Will you take the income in the one place, will you take it in the other place, or will you take it in both places? In every possible system of local taxation this question must arise. It is the characteristic of local taxation. Income is the source from which taxes are paid. They are all taken from income. You have got to make up your mind where you will seize the income, for there is no other alternative before you. In England to-day we take both places. We take income where it is earned by rating trade premises. We take it again where it is enjoyed by rating dwelling-houses. Say five men are partners in a business in the City. They pay rates on their office rent— $\frac{1}{5}$ th each. They go home to some suburban parish, in which they again pay

¹ Final Report, p. 13.

² *Ibid.*

³ *Ibid.*

rates. Here you have the same problem. The division of incomes earned and spent in different areas is not a problem in any way peculiar to proposed reforms; it exists in the present system, and must exist in every system of local taxation as long as the world lasts. Taxes are paid out of income, and incomes are spread over various areas, just like the presence of their owners. We may shut our eyes to this fact, but it is beyond our power to remove it.

The second objection urged by the Royal Commission against imposing local rates according to ability is the unequal distribution of wealth—another outcome of dividing the country into districts. The reporters say: "Circumstances not unnaturally often lead wealthy people to congregate in districts far from those in which the sources of their wealth lie. In such districts the present system of local taxation is not oppressive, and relief is little needed. But many purely agricultural and industrial districts number very few wealthy residents, and a tax on the incomes of the inhabitants would be more burdensome and less productive than the present rates."¹ This passage contains the most powerful indictment that could be framed against the findings of the commissioners. It condemns them out of their own mouths. For what does the passage amount to? Nothing but this: An *ad valorem* tax on rents weighs lightly in rich districts, and is "not oppressive." In such places a tax according to income is "not needed." In poor districts a tax on rent raises money, while a tax according to ability, "on the incomes of the inhabitants," would be "*less productive* than the present

¹ Final Report, p. 13.

rates." In other words: the present system is inequitable, and therefore we refuse to remove it. That is what the passage amounts to.

The two arguments against estimating the ability of individuals, viz. (1), that incomes are spread over various districts; (2) that some districts contain rich inhabitants, while others contain poor ones,—these are certainly difficulties of the gravest nature. But no one pretends that the problem of decentralised finance is simple. The commissioners' reasoning, although launched against the proposals of their witnesses, is not a condemnation of any particular scheme, but of local taxation altogether. They base their attack on the characteristics of decentralisation itself. No conceivable device will get over the existence of local boundaries: no human ingenuity will raise as much money by equitable means in a poor area as in a rich one. In rejecting proposals because they would not attain the impossible, the reporters show that they were not aware of the limits of their subject.

The existence of narrow boundaries is a fact we have to reckon with in local taxation. The consequences flowing therefrom underlie the whole problem. For administrative reasons local areas are confined; unless they are small, there is no reason why they should exist. It follows that people may belong to several areas. You must make up your mind how to deal with such people: whether to treat them on the English method, or in some other way. When that difficulty has been overcome, the fact will remain, that some local divisions are poorer than others. It must be noted that complications arise here only as regards the administration of *national* services; his-

torically, therefore, the problem dates from the introduction of the poor-rate. The tenths and fifteenths were levied locally, it is true, but appropriate portions had been allocated to each district by the agreement of 1334. As long, in fact, as each area is allowed to manage its own affairs as it likes, this aspect of the question of rating is simple. But when public opinion demands that all the poor are to be relieved, and all children educated, and that in matters of police and public health a national policy is to be carried out, then complications appear. In the early days of the poor-rate beggars were licensed to collect alms in other parishes, and later the justices were instructed to tax the Hundred and the County in order that rates might be imposed in each parish "according to the ability of the parish." These methods have been abandoned, but local authorities are now even less permitted to spend as they may be able to afford. Equitable taxation of each area by itself is impossible; subventions must be reintroduced. This is no claim for general subsidies to all and sundry, because "non-ratable property" escapes, nor for doles to individuals because they have grievances, but for grants to poor districts to enable them to carry out the policy dictated by the nation. It is also the theory which has of late years been evolved on the continent, and which has been copied by three of the commissioners. But the reporters, in what the Edinburgh reviewer calls their "laudable desire," forgot the premiss they laid down about the unjust incidence of local taxation, and put forward the proposal for grants on the graduated system as a measure for the reform of local taxation itself. That is a mistake. Foreign local

taxation is equitable already before grants are given. Subsidies to poor districts are not an alternative to the reform of rates; indeed they have nothing to do with the reform of rates. They are merely the necessary concomitants of a scheme of decentralised administration of national services. Local taxation must be taken by itself, and itself modelled on the principle of equity. After this has been done, but not till then, may graduated doles be allowed, which give more to one district than to another.

DIRECT ASSESSMENT

There are two methods of local taxation according to income: the direct and the indirect. Let us first consider the direct assessment of income. A system of this kind may be seen at work in Germany.

Local authorities themselves cannot assess by direct means—that is to say, by approaching the tax-payer and demanding a declaration. The checks which require to be applied against fraud and evasion are too intricate. The central government must, therefore, supply the local authorities with the “assessable incomes” to be taxed in each district. This is sometimes said of itself to be a defect because it makes local authorities less independent.¹ Such arguments would imply that most English urban authorities are at present in a state of the most abject dependence, for they are supplied with their “assessable rental” by a parochial board,² and on this sum must

¹ Bastable, *Public Finance*, Book iii. chap. v. § 7.

² See First Report of Royal Commissioners on Local Taxation (on Valuation), C. 9141 of 1899, pp. 21 and 15.

slavishly impose a pound rate. This objection is only unthinking. The true test of independence in local taxation is, that good management or extravagance should unfailingly react on local taxes, and this is attained equally well by imposing a rate on "assessable incomes" as on "assessable rentals." Every *Pfennig* added to the local income-tax is felt by those concerned. The basis of assessment is the aggregate of incomes in the district. The incomes of persons belonging to more than one area are distributed according to an established standard.¹ Both central and local governments impose their income-tax on this basis. To save cost of collection and multiplication of administrative machinery, both national and local taxes are collected in towns by the local authority, in small places by government collectors, the two parties paying over to each other their respective shares.

This system, which was advocated by many witnesses, secures local taxation according to ability in the highest degree in which it is attainable, but the idea is of no use in England. Our system of taxation has been constructed with entirely different objects in view from those which have influenced Germany. To discuss this question fully would lead into the realm of politics and to a comparison between the ideals of government in a self-ruling democracy, which necessarily takes the shape of a plutocracy, and the aims of a government based on universal suffrage and ruled by a monarch holding himself responsible to God. The question can be very much more simply disposed of by consideration not of ideals and motives, but of what is practically possible. Direct assessment is a

¹ See Reform Act, provisions regarding "Forensen."

very difficult matter, and in Germany it can be faced because there exists a remarkably organised civil service, such as is inconceivable in England. Taxation according to ability can be made the first principle to which the financial system must conform. In England all this is quite different. Our first canon of taxation is ease of collection.¹ The vast preponderance of indirect taxes, which make no pretence to realise equity of contribution, speaks for itself, especially when we remember that we are free-traders and impose duties for revenue purposes only.

This fact disposes of the project of a local income-tax, for the most difficult tax of all to assess with discrimination is an income-tax. No other impost presents problems which even approach in complexity to those of this tax. The English income-tax is arranged to evade all difficulties and collect the money in the easiest possible manner. The reader will remember that the old general property-tax, which had decayed till it became a land-tax, was superseded by Pitt and made into a "property- and income-tax," commonly called income-tax. The moment the war was over the tax had to be given up. Peel succeeded in reviving it in 1842 to enable him to remodel the customs and excise duties, but the income-tax was regarded with such intense dislike and impatience by Parliament, that it was only granted for a limited

¹ This is not only the case in practice. Ease above equity is also advocated by theorists. "Equality of contribution is an inferior consideration. The distinguishing characteristic of the best tax is, not that it is most nearly proportioned to the means of individuals, but that it is easily assessed and collected" (M'Culloch, *Taxation and Funding*, 2nd edition, p. 18). Among modern theoretical authorities see Professor Sidgwick, *Mem.* p. 109, and Professor Marshall, *ibid.* p. 114.

period. In 1853 this period expired, and the Chancellor of the Exchequer of the day pleaded for the retention of the tax in a budget speech which is always regarded as one of his greatest achievements. But even a financier of the unrivalled knowledge and wonderful plausibility of Mr. Gladstone could defend the income-tax on no other ground than that it was "an engine of such gigantic power in time of national emergency," that it should never be allowed to fall into disuse. Mr. Gladstone admitted that the assessment of the tax was so rough and so full of anomalies as to "make it difficult, perhaps impossible,—at any rate, in our opinion not desirable,—to maintain it as a portion of the permanent and ordinary finance of the country."¹ The English income-tax is essentially an emergency-tax. When we get financially into a hole, we clap it on. But in ordinary times the preservers of the income-tax always kept in view the necessity of, whenever possible, reducing the rate, and raising revenue by other means, chiefly by duties on articles of consumption. The income-tax has never been considered fit for a place among recognised parts of our scheme of imposts. Mr. Gladstone in 1874 offered to repeal it altogether.

The German² income-tax is quite different. It occupies the post of honour in the financial system; it is graduated, and in its assessment no trouble or pains are spared. We evade the difficulties involved in "declarations of income" by tapping at the source.

¹ Budget Speech, 18th April 1853 (*Financial Statements*, p. 46).

² To talk of a "German" income-tax is, strictly speaking, not correct, because such imposts are not imperial, but federal taxes. One ought to talk of Prussian, Saxon, etc., income-taxes.

This is convenient, but it involves losing sight of the individual, and thus makes it impossible to give consideration to particular circumstances. The power, for instance, to deduct expenditure on life insurance before the tax is assessed is the only allowance made in England for the gravest objection to our income-tax—that, by taxing gross income, it taxes the savings of those who have to make provision for their families. Life insurance is only one variety of countless methods of investing savings, but it is the only exemption which can be checked with ease, and therefore it is the only exemption given. The German tax is not tapped at the source; the trouble involved in checking fraud is consequently enormous, but then equity is aimed at, not ease.

It by no means follows that the German impost is a more desirable tax than the English one. On that subject a great deal may be said. Long may we be rich enough to worship the canon of ease of collection! The object for introducing this discussion was to be able to point out why the direct local income-tax, which is so frequently advocated, cannot be applied to England. The German tax is imposed not on a herd, but on each individual, and the assessable basis can, therefore, be apportioned to various local areas. Our happy-go-lucky income-tax would have to be entirely reconstructed, and that is beyond the reach of practical politics. Mr. Gladstone refused even to describe such a labour as Herculean, “because a Herculean labour was a labour which Hercules could accomplish,” and Mr. Gladstone was persuaded that the reconstruction of the income-tax was not in this sense a task for a demi-god. The Germans, so far,

are the only important nation who have faced the problems of the income-tax. The English Hercules prefers a labour-saving device like that employed in connection with a certain stable. It may be a rough method, but it is the easiest way that can be discovered, and it has great advantages of its own.

INDIRECT ASSESSMENT

Direct assessment according to income being at present, and possibly always, out of the question, there remain indirect methods. Income may be "guessed" by certain outward criteria, and by taxing according to these, some degree of equity may be attained. The problem is surrounded by great difficulty. Prussians, for instance, were most unwilling to adopt the direct local income-tax. When they reconstructed their national income-tax a few years ago, they would gladly have retained it for central purposes only. But they failed to see their way to adopting indirect assessment, although full powers are given to local authorities to make experiments in this kind of taxation on their own account, should they think it desirable to do so.¹ House rent as a basis for rating is condemned unanimously, and such taxes are prohibited to local authorities.² The principal objections are these:—

1. A rent-tax is a duty on an article of consumption which is a "necessary."

¹ See author's article on Local Taxation in Germany, *Econ. Journ.*, September 1901.

² Except in a few cases where such taxes still exist.

2. An *ad valorem* tax burdens incomes in a degressive ratio, expenditure on rent being greater the smaller the income.
3. Classification cannot secure equity, because expenditure on house rent ceases to expand after a certain degree of wealth is reached.
4. Individual circumstances, such as a large family, call for high rent.
5. The Prussian reform consisted principally of placing a part of the burden of "beneficial" services on the owners of land and buildings. It was not considered that such taxation could be well combined with a system of assessing tenants on rent.

For these reasons proposals to tax according to rent were unhesitatingly put aside.¹ In England we may succeed in solving the problem without direct assessment, not only because we have different ideals in our public finance,—Prussia is governed by kings, we by parliaments,—but also because an indirect system already exists and is inextricably bound up with the customs of the country. It is true that the fundamental ideas on the subject have become completely obscured through the treatment which the old traditional methods have met in the courts of law, but it may still be possible to retrace our steps. In France, also, indirect assessment on the basis of rent exists, which may afford some guidance as to what modern experience has shown to be practicable. These methods have been adopted in France out of political

¹ Schwarz, Introduction to annotated edition of the Act of Reform.

considerations. The principle of "liberty" established by the Revolution is considered to be violated, if Frenchmen submit to the official scrutiny which is the necessary check on declarations of income or wealth. The various schemes for a direct income-tax which have been brought forward have, therefore, been opposed not only by the wealthy, who escape lightly under indirect assessment, but also by those who fear that compulsion to reveal private financial affairs might be used unscrupulously by the government. Frenchmen permit many interferences with what we call liberty, but they have a morbid dread of the kind of *dossier* which is collected at Somerset House.¹ The governments have been compelled to tax according to outward criteria even for national purposes, and this method, designed in France to overcome political difficulties, seems applicable to English local taxation as a means of solving the administrative peculiarities of the problem. It may be objected that the indirect measure of income is inaccurate. From another point of view, that is its very strength. It does not try to be accurate—therefore it is more easily administered. When we consider that ease of administration is the first canon even in our national finance, that we place Ease a long way above Equity; when we also consider how comparatively small is the total to be raised by local rates; when all this is borne in mind,—there seems to be little ground for objecting to indirect assessment of income for local finance.

¹ See, for instance, Mr. Bodley's *France*.

WHERE SHOULD INCOMES BE TAKEN ?

The practical problem at once divides itself into two parts, because an individual may "belong" to a parish in two senses: He may enjoy his income there, or he may earn his income there. Under the present system we are rated in both these capacities. The manufacturer whose factory is in one parish, while his house is in another, pays poor- and school-rates, etc., in two parishes. Messrs. Lipton, Ltd., pay rates in a hundred parishes. The doctor with his dispensary and his bedroom under the same roof pays only in one. This difficulty is insuperable; we can only determine either to evade it, or to make the best of it.

Evasion would consist in confining local rating for national purposes to persons in one capacity; in taking incomes, say, where they are enjoyed,—that is, rating on dwelling-houses only. Such a proposal was put before the Royal Commission by Mr. M'Kenna, M.P.,¹ and answered in a special memorandum by the Chairman, Lord Balfour of Burleigh.² The objections were two-fold: (a) "It is practically certain that nothing can be done in the direction of attempting to impose a rate in any manner approaching to an income-tax to be levied locally." (b) Criticism in detail. The first objection is the fundamental position taken up by the commissioners—namely, that local taxation "in any manner approaching to an income-tax" is an obscure conception, and that the problem must be solved by taxing all sorts of property. This position need not be further discussed. As regards some of the

¹ *Evidence*, vol. iv. p. 225.

² *Ibid.*, p. 228.

criticisms in detail, they were certainly justifiable, but, in itself, the idea is theoretically defensible. The tax would be universal, for every Englishman, whether he holds consols or not, must live in a house. Globe-trotters would escape, but their evasions would be much less important than those practised by teetotalers, by people who systematically commit perjury in their income-tax returns, or who make gifts *inter vivos*. Imagine that these difficulties were overcome, and all the other objections also. As a local rate for national purposes the tax would work in theory. Some parishes would be worse off than others, but they must be that under any scheme. As regards the prime test of whether extravagance or economy would infallibly react on the rates, the tax would be satisfactory. Smith, the manufacturer, might not pay in parish A, but he would pay in parish B, where his house is, and there is no reason why he should pay for educating the children, etc., of one parish more than those of another. That is a national affair. Rating for national purposes is local only for reasons connected with the supervising of expenditure, and if every one paid on their incomes, no matter where they lived, every requirement would be satisfied. This plan, however, is discussed only to illustrate a principle and for the sake of completeness. It exists nowhere in practice, and would not raise enough money after exemptions have been given to the poor and abatements to the owners of moderate incomes.

The alternative is to retain the present method of taking income in both places, and make the best of it. It involves overlapping taxation, and "overlapping taxation" sounds bad, but no practical financier can

suggest a remedy. The single tax is only advocated by people who believe in the millennium. As soon as you have two taxes, you must, in some cases, have overlapping. The income-tax overlaps the death-duty; the death-duty overlaps the tax on tobacco; as regards the various indirect taxes, they overlap among themselves to an incalculable extent. You may get some poor tax-payer who is covered with sores like Job, his prototype; even the man whose health does not allow him to drink, whose wife does not allow him to smoke, whose doctor does not allow him to eat sugar,—even he may find the duty on prunes overlap with the tax on patent medicines. A local rate on the occupiers of inhabited houses, which takes all incomes where they are enjoyed, and a rate on trading premises do certainly overlap, and the process becomes more complicated still if we add taxes on luxuries; but, on the whole, the resulting inequity is less than that arising through the custom and excise-duties. Overlapping taxation is the consequence of multiplication of devices, and the alternative of the single tax is excluded as long as people regard assessors as their natural enemies. In the days foretold by the Hebrew prophet, when the wolf shall dwell with the lamb, and the leopard shall lie down with the kid, then we may trust to one tax, but not sooner. To use a simile: Rifle shooting is out of the question, because people will not allow the financier to take aim; a shot gun with a good spread must be employed.

We are thus brought round to what is practically the existing system of local taxation in England. The only practicable proposal for reform seems to be the bringing up to date of mediæval customs. With ad-

vertence the author says mediæval customs, and not our present customs, for two modern excrescences on the rating system must be absolutely repudiated: annual value and general subventions. The period to be overtaken is considerable. The indifference and incapacity of the legislature have allowed acts of injustice to be perpetrated which are intolerable, but the expedient of taxing by rent cannot, as a whole, be said to have broken down. A machine which produces forty millions, however it may creak in the process, is not incompatible with the national temper. The principle of rating on rent is English, and it would be a very dangerous experiment to remove it; what we may alter is its injurious and obsolete application. Gradual reconstruction, on the broad lines we find ourselves on at present, is both justifiable as scientific finance, and commendable as possible politics. There is not a single new idea involved, not one logical deduction: the whole ought therefore to be practical.

There remains the last bulwark of the *non possumus* attitude of the commissioners: the objection to complexity.¹ This objection can be very effectively met. It aims at all change and at all reform, and the widespread discontent of the rate-payers shows that reform must be faced. We must also remember that if it may be necessary to introduce fresh complexities into one branch of local government there are other branches where considerable simplification is possible. We may divide the work of local authorities into two parts: the work of administration and the work of taxation. Any undue complexity in the work of administration is pure waste of energy. Any undue simplicity, on

¹ Final Report, p. 14.

the other hand, in the work of taxation simply means doing roughly what ought to be done carefully. There can be no doubt that the administrative part of English local government is unduly complex to a degree, which is a disgrace to the political genius of the country. Historically, the causes will be treated in the chapter on Beneficial Rates,¹ but the existing absurdities are a matter of general notoriety.² The overlapping areas, the separate bodies multiplied *ad infinitum*, with all their elections, machinery, rating, and accounting, the utter absence of system throughout,—these of themselves exhaust the time and material which people are willing to devote to local self-government. No wonder that the system of taxation has had to be simplified, as it has been from century to century. There used once to be methods of rating which at least spared the poor, which distinguished between “national” and “beneficial” services, and had in general been developed by local authorities till they very effectually met the necessities of the times. But Parliament went on in utter heedlessness adding to the work of administration, and never gave a thought to taxation. It was inevitable that something must give way. Naturally it was taxation, for the local authorities had that in their own control. It was the line of least resistance.

If the author advocates reforms, which will lead

¹ See Part II. chap. i.

² Almost every student of local government has animadverted on the scandalous confusion prevailing in our system of decentralised administration. See, for instance, Chalmers, *The National Budget* (Engl. Cit. Series), p. 154; *Local Administration* (Imp. Parl. Series); *Cobden Club Essays on Local Government*, etc. (1882), p. 47. Most famous, of course, is Mr. Goschen's phrase: “A chaos of authorities, a chaos of rates, a chaos, worse than all, of areas.”

to greater complexity in taxation than at present, which will involve doing more than merely clapping on an equal pound-rate on to every house and every bit of land in a place,—a custom which represents the monotony which comes of exhaustion,—he must be understood to be equally insistent on less complexity in administration. No person who is acquainted with the affairs of local bodies is not convinced that the saving of trouble which could be effected by a reconstruction of the administrative framework of local government is very considerable. To set this misapplied energy free must be the first step. When that is done,—when the duties of local government are simplified and arranged, so that a man of common sense can grasp them and take an interest in them,—then it may be hoped these duties will be so imposing that they will not only appeal to the rate-payers, but will attract the kind of man you need for an administrator.

CHAPTER VI

INDIRECT LOCAL ASSESSMENT OF INCOME

As a criterion for the indirect assessment of income, the rent paid for the use of real property represents a kind of survival of the fittest, and must always be largely relied on. The question is to consider how far the present practice of an equal pound-rate on all rents should be modified, how far it can be supplemented by other guesses. The subject must be reviewed as regards the taxation of income where it is spent, and income where it is earned—that is, from the standpoint of the occupiers of dwelling-houses and from that of the occupiers of premises and land used for other purposes.

I

Considering, in the first place, the case of persons who have a dwelling-house in a local area and the possibility of guessing their income from their rent, we meet with two difficulties. Rent may in average cases be some rough index to income, but it is a test which requires to be applied with particular caution

at the two extremes of the social scale—to the very rich and the very poor. Our present rates, as far as they are imposed on the occupiers of dwelling-houses, fail grossly by making no allowance for these peculiarities.

In the case of expenditure on a dwelling-house a point is somewhere reached in the ascending scale, after which the rich can go no further. Above a certain level there comes a stop. The value of the ground and building occupied ceases to expand, and if the rich man wishes to spend more on his house, he must take it out in internal decorations. Guesses at income based on rent must fail in the case of large incomes. There will be a substantial leakage of taxable capacity.

There is no graver objection which can be urged against a tax than inability to secure proportionate contributions from the wealthy. Theoretically such a defect condemns a financial device without further inquiry. But for retaining the house-tax in spite of this shortcoming, various practical considerations must be brought forward which seem final. In the first place, the house-tax is not the only source of local revenue; income is also seized where it is earned; and although supplementary taxes cannot secure proportionately greater contributions from rich persons, they will nevertheless diminish the evil, for they do not involve smaller contributions by the wealthy. Further, it must be remembered that the deficiency of the indirect tax on income is only one of the phases in which the taxation of the rich presents itself. The same difficulty occurs not only in national finance as a whole, as exemplified by the reliance

placed on custom and excise duties: it occurs even in the national income-tax itself. No one pretends that equality of sacrifice is attained by the curious expedient of tapping at the source. The taxation of large incomes is the most difficult problem of modern finance, and it is a problem which is insoluble in England, for it requires direct taxation, and direct taxation is a monarchical and not a parliamentary institution. If we compare England, France, and America with their heavy taxation of small incomes—one might say with their repudiation of the income-tax: no one but ourselves dignifies the English impost with the name "income-tax";¹ the French duties are still less a real income-tax; the case of America is even more extreme,—if we compare these great strongholds of party government and Prussia, Saxony, and Austria, with their graduated income-taxes and low duties on the luxuries of the poor,² we see that the phenomenon is universal. It is not merely that party government has a tendency to develop into plutocracy; in England a Harcourt may introduce his death-duties. It is rather the fact—and the recourse to death-duties is evidence to the point—that direct taxation calls for highly efficient administrative service, and this is essentially the attribute of a monarchy.

In discussing the reform of local rates we must banish from our minds the idea of direct taxation.

¹ See accounts of English income-tax by Vocke, Schmoller, Wagner, etc. The French proposals for an income-tax have been modelled on the German, not the English impost.

² The following figures calculated per head of the population are interesting: Spirit-duty in England, 12s. 6d.; in Germany, 3s. Beer-duty in England, 7s.; in Germany, 10d. Tobacco-duty in England, 6s. 4d.; in Germany, 1s. (Wagner, *Finanzwissenschaft*, iii. Erg-heft).

The project is impracticable, and it would be a waste of energy to allow our attention to be diverted by vain speculation. We must adopt the house-tax as one of the most important local sources of revenue and accept the consequence, that the rich will escape with a burden of comparative lightness. There are also other reasons, besides the inevitable, which may reconcile us to indirect assessment. Long habit has accustomed people in this country to a rent-tax. That is a very important argument. Further, direct assessment by local authorities themselves is quite impossible, and the necessary alternative is a combination of the central and local income-tax. Such an arrangement has grave disadvantages. The objection that it makes local government less independent has already been referred to and shown to be frivolous. But the combination system may be very embarrassing to the central authorities. The value of an income-tax as a weapon in a national emergency is seriously impaired, if the impost is hampered by local "additions." Every tax has a certain maximum productiveness. It is useless to demonstrate that all taxes are paid out of income, and that an income-tax is the only logical expedient for raising revenue. Such an argument assumes that people are reasonable—an assumption very far removed from fact. If the income-tax became too high, the incentive to fraud would be so great that productiveness would be threatened, and the danger of political discontent might also be serious. It is sound policy to reserve the income-tax for central purposes, and this fact is a strong argument in favour of indirect assessment in local finance.

It is usual to recommend taxes on luxuries as a

means of securing contributions from large incomes, but on reflection it must appear that this seemingly easy solution of the question is really of very little value.¹ Taxes on luxuries are never productive. The consumers are few in number, and if the duty is very heavy the luxury can be given up. Neither are the taxes equitable. There are probably few kinds of expenditure which enter more disproportionately into the "budgets" of various individuals than outlay on some particular luxury. Take, for instance, gun and game licenses. A man with a few hundreds a year may have to pay these taxes, and Baron Rothschild may have to do the same; on the other hand, many men of wealth do not shoot at all. To equalise matters by taxing every luxury is, of course, impossible. But although taxes of this kind cannot perform the functions of an income-tax, they may give some small assistance to local financiers, if it is found that they can be developed by decentralised authorities.

Peculiar difficulties as regards guessing income arise in connection with country houses in the occupation of the owner. The almost inconceivable confusion of ideas, which has long been prevalent regarding the nature of rates, has, among other things, produced the theory of "annual value." Rates are regarded as a tax on the *yield* of real property, and a system of deductions for cost of repair, upkeep, insurance, etc.,² has been established, which goes far to destroy the test of rent as a criterion of ability. The deduction theory does little harm where letting value can be easily determined,

¹ The device was tried by Pitt in 1785 and failed. See Dowell, vol. ii. p. 188 (*Assessed Taxes*).

² 6th and 7th Will. IV. cap. 96 (1836 Act).

or, in the case of houses occupied by *bona fide* tenants, because local authorities gaily evade the law of deduction and give a uniform percentage all over, which leaves matters exactly where they were. But in the case of country houses occupied by the owner, rent is estimated by the valuing authority according to the *net yield* which could be obtained from a tenant. It is perfectly true that an expensive house is a small source of revenue, but rates are not a tax on the yield of property to its owner, but an indirect tax according to the occupier's expenditure.

This example of country houses, affords a good instance of the dangers connected with attempts to tax the rich under an inefficient system of finance. Agitators will always be found ready to pounce on some unfortunate persons or class, and claim that they should be mulcted. Mill, for instance, who highly approved of a house-tax as a substitute for a direct assessment of income, treated the problem of country houses as follows: "The public were justly scandalised," he said, "on learning that residences like Chatsworth and Belvoir were only rated at an imaginary rent of perhaps £200 a year."¹ To remove this grievance Mill suggested that a valuation should be made of what it would cost to rebuild such residences and that this sum should be the index of income. Here we have this error made even by a philosophical radical. Adam Smith had been much more just when he pointed out, in his discussion of a rent-tax, that the country residences of rich and great families represent the accumulated expense of many generations, and that the cost of such structures bears no relation to the

¹ *Principles of Political Economy*, Book v. chap. iii.

income of the heir in possession.¹ To tax family seats on cost of building, as you might a new villa, would involve flagrant injustice. We must also bear in mind the peculiarity of country houses, that, unlike ordinary town houses, they remain in the same family for several generations, so that it is necessary to take into account the present impoverished condition of their proprietors. Our house is our local "declaration of income," and just as it would be inequitable to tax a bankrupt merchant according to the taxation returns which he made in the heyday of his prosperity, so it would be unjust to estimate incomes by houses which have come down from days that are gone for ever. Structural value is no index of income in the case of country houses. On the other hand, annual value, as now estimated, is a pure farce. The case of a man with many houses raises further difficulties. If six men all leave their houses to one man, who retains these houses in his own hands, it is doubtful whether that man's "ability" is equal to the sum of the "abilities" of the six; on the other hand, it is also doubtful whether there is any claim that the principle of measuring ability by consumption of house-accommodation should be departed from under such circumstances.

At the other extreme of the social scale we meet the fact that, after a certain point is reached, men cannot go any further as regards the cheapness of their dwelling. The very poor, in satisfying themselves with the necessity of a house, have to spend a proportion of their income which is much above the average. This fact leads to the conclusion that, in guessing income from rent, we must, in the case of the

¹ *Wealth of Nations*, Book v. chap. ii.

poor, allow abatements, even exemptions. The Royal Commission had this point before them in connection with Mr. M'Kenna's scheme for developing a rent-tax for local purposes. It is one of the most curious instances of the utter failure of the commissioners to understand the facts of local taxation, that they regarded a tax on house-rent as an innovation in local finance. Rates have always been considered as largely composed of a tax on dwelling-houses. It is not clear what else they can be supposed to be. John Stewart Mill described local taxation in towns as consisting almost entirely, and in rural districts partially, of a rate on dwelling-houses.¹ All the eminent experts consulted by the commissioners took up the same position. The reporters, however, insisted on regarding taxation as imposed on property. Any attempt to regard rates as falling on income would, they considered, "produce anomalies more striking than those due to the present rating system."² Arguing, as such people always do, that property cannot claim exemption, the reporters were naturally led to refuse abatements to the poor.

There is moreover (they say) another practical difficulty of some importance (in the way of adopting a house-tax), viz. the question whether a rate on inhabited houses ought not in some way to be graduated. The case for graduation is much stronger here than in the case of an income-tax, because, as a general rule, the smaller a man's income is the larger is the proportion of it which he is obliged to spend on house accommodation. And, as regards working-class dwellings, either exemption or at least large abatements would be necessary if the existing evils of dear, bad, and inefficient house-accommodation are not to be aggravated. We greatly doubt the expediency of introducing the principles of graduation and exemption into local taxation.³

Principles of Political Economy, Book v. chap. iii. § 6.

² Final Report, p. 14.

³ *Ibid.*

Apart from the fact that rates are at present a tax on inhabited houses, and apart also from the fact that the commissioners promptly contradict the above quoted assertions as soon as they come to deal with another aspect of the same question, the principle of giving abatements to the poor is already established in our existing system of rates. There is no question about "introducing." Every local authority has statutory power to relieve or abate rates, if the occupier appeals against them on the ground of poverty. Further relief may also be given by writing off uncollected arrears. The necessity for giving exemptions is largely obviated in England by a device called compounding. This is simply the well-known expedient of "tapping at the source," which is so successful in the income-tax and the excise. The rates on the dwellings of the very poor are not collected from these poor occupiers, but tapped at the source and collected from the landlord, who, like the brewer and merchant, recoups himself by adding the tax to price. The limits of rent up to which the arrangement is allowed are, for the poor rate in London, £20; in Liverpool, £13; in Manchester and Birmingham, £10; in all other places, £8.¹ The only difference between compounded rates, and excise, etc., duties tapped at the source, is this, that in the case of rates the local authority must pay a commission to the landlord. The rates of commission vary, but for compounding the poor-rate at the order of the local authority the allowance is by statute fixed at 15 per cent.² An additional 15 per cent must be allowed, if the landlord agrees to pay the rates whether the houses are occupied or

¹ 32nd and 33rd Viet. cap. 41.

² *Ibid.*

not.¹ There cannot be the slightest doubt that the landlord transfers these taxes. The taxation of the landlord is confined to houses of low rental, and all that is necessary to produce shifting or transfer is a regulation of supply. When speculators find that they have to pay taxes on their investments in small houses, they simply restrict the number of such small houses, so that the supply will always be short of the demand. The competition of tenants then enables them to raise rents, till the special tax is transferred. Tenants will be willing to pay, because if they go into a house above the compounding limit, they are assessed themselves. The beggar pays his rates in increased rent, just as he pays the tax on his quid in increased price.

The expedient of compounding obviates the necessity of giving exemptions to the poor, just as it does in the case of the custom and excise-duties which are tapped at the source. The commissioners approve of the system and wish to extend it. The reasons they give are an excellent commentary on their assertion that rates are imposed on property.

The system of compounding (they say) has been frequently condemned on the ground that those who have the right to vote for the election, or become the members of local authorities entrusted with the raising and expenditure of money derived from rates, should pay rates directly themselves.

We entirely concur in this view, and we think that it is most desirable that all classes of the community should, as far as possible, be made liable to personal payment of rates, in order that they may appreciate directly the effect of economical or extravagant administration.

But however desirable in principle it might be to abolish compounding, it is generally agreed that the practical difficulties

¹ See full account in Final Report, p. 50.

of collecting and enforcing payment from large numbers of the poorest classes in the large towns who are weekly tenants and frequently moving from one tenement to the other are insuperable. This view has been endorsed by officials of local authorities in large boroughs, and some of them have suggested that the limit of ratable value below which compounding is allowed should be slightly raised.¹

Can this passage be reconciled with the assertion that rates are paid by property?

Mr. James Stuart dissents from this view. He reports: "I dissent from the recommendation in chapter xii. for raising the ratable value for compounding for the poor-rate from £8 to £10. I believe . . . it would have the effect of raising the rent of many of the houses at present occupied by the poorer classes of the community, as their rent is frequently restricted by the compounding limit."²

Compounding is a mere device for collecting money from the poor. It is interesting to view the great change which has come over our ideas on this subject in the course of the development of local taxation. In the earliest times total exemptions were given. Thus to the fortieth on movables granted in 1232 "no poor man or woman was to contribute who had not in goods more than the value of 3s. 4d."³ A similar provision was made in the case of the thirtieth of 1237. In 1276 "the king, willing to spare the poor," granted an exemption to all who had not of the value of 15s. in goods.⁴ When the assessment and collection of taxes were handed over to local authorities with the instruction to proceed "in the

¹ Final Report, p. 51.

³ Dowell, *op. cit.* vol. i. p. 68.

² *Ibid.* p. 90.

⁴ *Ibid.*

ancient manner," we cease to have particulars about exemptions; but in regard to taxes levied centrally, the same policy was pursued. The ship-money, for instance, was levied "by the houses and lands lying within each parish and town," and the writs recited; "and whereas His Majesty takes notice that in former assessments, notwithstanding the express orders given in our letters to ease the poor, there have been assessed towards this service poor cottagers and others who have nothing to live on but their daily work, which is not only a very uncharitable act in itself," etc.¹ Accordingly the writs proceeded to give directions that the shares falling on the poor were to be redistributed among the more wealthy. In the case of local authorities themselves the method of giving relief has been by allowing appeals against rates on the ground of poverty—apart, of course, from the ordinary right of appeal against false assessments. When compounding was first introduced for overcoming the difficulty connected with collecting rates from tenants who held their dwellings by the week, or by other short periods, the arrangement was not permitted in the case of rents *below* six pounds. Even compounding, therefore, in its original shape, did not shut the gates of mercy on the poor. For the present system the poor have primarily to thank the Poor Law Commissioners. Coming from a careful study of the judicial interpretation of the Act of Elizabeth, which they accepted literally, and holding views on the incidence of taxation which were not only unorthodox, but made no allowance for the hypothetical nature of the science of economics, these com-

¹ Dowell, *op. cit.* vol. i. p. 68.

missioners did much to form the opinion that rates are burdens on the owners of real property. This "real and essential character" of rates they wished to see acknowledged in practice.¹ They pointed out all the "inconveniences" arising from "the attempt to give the tax the appearance of an occupier's tax." "Rates," they said, "are essentially taxes on the rent of the landlord—not taxes on the occupier's profits; no legal declarations, no limitation of legal remedies to the person and goods of the occupier, however much they may disguise the aspect of the tax, can make it fall permanently on anything but rent." The most important of these "inconveniences" was, "that looking to the occupier for payment, instead of looking to the receiver of the rent, a poor insolvent contributor is often looked to, instead of a permanent and fixed one. The poor occupier escapes through his apparent inability to pay, and through a leniency towards him, which would be manifestly inapplicable to the landlord. Thus many rates are lost. In other words, the sympathy towards the poorer class of tenants—no compounding being allowed below £6—produces its advantages not to them, but to their landlords; their occasional inability to pay brings relief not to them, but to their landlords."² The Poor Law Commissioners, therefore, suggested that all rates should be charged on the landlords; failing which, that the restrictions imposed on compounding should at least be removed. This would prevent rates being "lost," and would also diminish "much of the agitation and dispute in vestries arising from the unfounded belief of occupiers that they are affected by rates, when, in fact, they are

¹ 1843 Report, p. 94.

² *Ibid.*

not affected." It need not be repeated that the writers had no ground either in history or abstract science for these assertions.

But even if compounding were abolished and all rates levied from occupiers, it would be necessary to make more provision for the poor than is done by the present law, which entitles them to relief, if they appeal on the ground of poverty. The practical results of such a system may be exhibited by the experience of Scotland.

In Scotland occupiers' rates may be collected from the landlord under deduction of a commission of 10 per cent if the premises are of an annual value of £4 or less. The rule applies, however, to certain rates only, and this fact together with the very low limit of £4 bring it about that direct collection from the occupier is much more prevalent than in England, and that extensive use is made of the legal remedy of appeal on the ground of poverty. Every rating authority appoints a time for hearing these appeals and advertises the days for holding the inquiry. If the parish is small, personal appearance of the occupier may be dispensed with, but in large areas a regular court is held. In order to save trouble it is an almost universal practice to instruct the rate-collector to apply to the poor-law authority of the district for a list of persons who receive "out-door relief." These paupers are relieved from rates and struck off the roll without the formality of appeal. People who are not officially classified as paupers must make special application, and each individual case is disposed of at the discretion of the local authority, which may give total relief, or partial relief, or dismiss the claim as it

thinks fit. Substantial sums are written off in this manner.

Howèver equitable these exemptions may be, however humane the relief to those who receive it, the present writer believes that the system of abatement on appeal is objectionable in its principle and offensive in its working. Not only does it create a belief that what is a measure of the barest justice is a relief given out of charity, but it results in flagrant inequalities. The people who obtain reduction on appeal are only the shameless and importunate—those who do not object to appear publicly among a struggling crowd and before the authorities beg and pray, on account of their poverty, to be relieved of a burden which their neighbours look upon as the badge of a citizen. The author has been told by local officials that in places where it is customary to give rate-payers a copy of the printed accounts when they pay their taxes, it is remarkable to notice how anxious the poor are to carry the book away. Its figures are quite as incomprehensible to them as to other people. If it is possible to have a graduation of superlatives, the figures are probably even more incomprehensible to them. But the poor like to be seen in the streets carrying the book. They sometimes forget to ask for it at the time and come back to the rate-collector's office. The possession of a copy of the town accounts is a proof to neighbours that the bearer has been able to afford to pay his taxes. The poor take a pride in this distinction.

Those who neglect to appeal,—those who are too anxious to keep their heads above water, and to appear before their neighbours as citizens with full

rights, or those who cannot spare the time, for each rating authority must be appealed to separately,—these remain on the books, and the second stage of local taxation commences. After a certain interval from the date when the rates became due, a list of arrears is made out and submitted to a court of law. A general warrant is endorsed on the list of arrears giving authority to put in operation the law of the land, both English and Scotch—namely, to proceed with forcible collection, and, in case of failure, sequester the recusants, sell them out, and recover the taxes. Rate-collectors are usually paid by commission on the amount collected, but even if they draw fixed salaries, it is a matter of honour with them to make as few “bad debts” as possible. The collection of these overdue rates involves great hardship and suffering. The tax per pound of income is many times heavier in the case of the poor than in that of the rich. The rate-collector of a town with which the author is acquainted once boasted of how efficient a municipal officer he was. With great pride he produced figures showing the large sums written off as bad in the time of his predecessor, and the drop in the “irrecoverables” since he had taken the work in hand. He had “worked the thing up,” as he called it, till he collected nearly 95 per cent of the rates imposed. On inquiry whether he often sold people out,—that seems to be the technical expression,—he replied that he seldom did. There were difficulties in the way, he explained. The landlord has usually a prior claim over a tenant’s property for unexpired rent and arrears. If the rate-collector were to sell the defaulters’ furniture, he would make the town liable for the

landlord's claim. He would also come into conflict with his colleagues, the collectors for other rating authorities. Sometimes, the author was told, the collectors combine with one another and come to an agreement with the landlord, and together they sell people out, just to show that they are in earnest. But usually the threat to sell is sufficient. "And we threaten them like anything, and they are in a terrible fright to lose the furniture,"—these were the exact words used in giving the explanation. Another remedy against defaulters which is much more frequently applied, because it is easier and more productive, is that known in Scots law as "arrestment."¹ The collector finds out the place of employment of the rate-payer and prohibits the employer from paying the man's wages until the claim of the local authority has been satisfied. By this means considerable sums are collected in manufacturing districts. One cannot blame municipal officers for using all the remedies at their command to enforce payments which are legally due. It is the method of determining the rate-payers' liability which is obnoxious. As a matter of fact the collector who has been referred to as priding himself on his efficiency was the first person to draw the present writer's attention to the reluctance of the deserving poor to resort to appeal.

Philanthropic resolutions are sometimes moved at meetings of local authorities for the purpose of extending the system of exemptions. Thus, at a recent sitting of Glasgow Town Council it was pointed out that the arrears of rates outstanding at 31st May 1901 had been estimated as "good" to the extent

¹ Corresponding in English law to "attachment."

of £5000, but that up to 15th September only £1900 had been collected. It was moved that an exemption should be granted to all poor widows and single women householders under £10 rental instead of keeping them on the books, and endeavouring to collect the money. The motion was illegal and could not be carried.¹ Exemption can be given on appeal only, and to individuals only,—not to a class. The time for appeal had also passed.

The present writer hopes that it is self-evident that some reform in the local taxation of the poor is necessary, and that the mere abolition of compounding will not bring about satisfactory results. Exemption on appeal is thoroughly objectionable. Neither below the £8 limit, nor above it, can the system produce equity. If one looks through the newspaper reports and sees the comparatively substantial rents paid by some of the claimants, one realises what anomalies the system must produce. The appeal *ad misericordiam* is unknown in national taxation. In local rating it represents simply one of those innumerable historic details which cling to our system, and proclaim to the observer its nature of a rough guess at ability handed down from a remote antiquity. The task of the modern legislator is to regulate this guess, for the ancient method of individual appeal creates inequalities and injustice.

The opinion expressed by the commissioners covers two points. "We greatly doubt," they say, "the expediency of introducing the principles of graduation and exemption." The chief reason for coming to this decision is found in the treatment of the question of

¹ *Glasgow Herald*, 17th September 1901.

compounding—namely, the political danger of allowing people to vote who pay no taxes. This objection does not, however, touch the question of graduation in applying the rent-test. It is not necessary to make poor people pay abnormally heavy rates of income-tax in order that they may appreciate the benefits of economical administration. The claim for total abolition is different. The answer here must largely depend on whether we accept the principle of exemption to the minimum of subsistence or not. The discussion of this point belongs, however, more to the sphere of politics than to that of taxation, and the question must be left open. The most important practical consideration to bear in mind is the expense which has to be incurred in collecting taxes from poor people. In the town of Breslau, for instance (391,000 inhabitants), total exemption is given from the local income-tax to all persons with incomes below £45 a year, and yet the legal summonses employed in collecting taxes were 111,006 in number, the average amount of the claims being below 8s. each. Collection of taxes takes place quarterly, so that many persons appear more than once in the total of 111,006; but even after making every allowance, the figures are striking. About half the claims had to be abandoned.¹

After dealing with the difficulties which arise at either extreme of the scale of wealth, it remains to be seen how far a tax based on house-rent is otherwise equitable. Adam Smith was in favour of an un-

¹ *Bericht der Verwaltung der Stadt Breslau, 1897-98.* See statistics of other towns quoted in author's article, "Local Taxation in Germany," *Econ. Journal*, September 1901.

graduated rent-tax, chiefly because he thought it afforded a means of securing large contributions from the rich, while he considered that the poor spent so small a portion of their means on rent, that the impost would not burden them heavily. "The proportion of the expense of house-rent to the whole expense of living," wrote the author of the *Wealth of Nations*, "is different in the different degrees of fortune. It is, perhaps, highest in the highest degree, and it diminishes gradually through the inferior degrees, so as in general to be lowest in the lowest degree. . . . The poor find it difficult to get food, and the greater part of their little revenue is spent in getting it. The luxuries and vanities of life occasion the principal expense of the rich; and a magnificent house embellishes and sets off to the best advantage all the other luxuries and vanities they possess."¹ This was written a hundred years ago, and it is certainly not true of the present day. Mill, who considered a rent-tax to be "a nearer approach to a fair income-tax than any direct assessment of income can easily be," advocated that "as incomes below a certain amount ought to be exempt from income-tax, so ought houses below a certain value from house-tax, on the universal principle of sparing from all taxation the absolute necessities of healthful existence."² But between the two degrees of very rich and very poor there are many cases which would in equity call for separate treatment. The most obvious is that of the man with a large family. Two men of equal income may, on account of the size of their families, live in houses of

¹ *Wealth of Nations*, Book v. chap. ii.

² *Principles*, Book v. chap. iii. § 6.

very different rentals. Efforts to secure an exact apportionment of the burden of a house-tax in proportion to ability have been made in several countries, but they have invariably broken down. The complexities are too numerous. Even the most intricate net of guess-work must always remain guess-work.

France is the classical country of taxation according to rent, and many attempts have been made to modify the assessment of the *contribution mobilière*. The methods of raising money which had developed out of the feudal system were an important moving cause in the French Revolution. Already in 1787 the Assembly of Notables included suggestions for elaborate estimates of income based on outward criteria in their schemes for financial reform. The legislation of the Revolution adopted these ideas in 1791, but the laws could not be put into practice, and were repealed in 1798. France fell back on an ungraduated tax on house-rent, and only once, in 1887, has the old idea of more accurate guess-work been revived. In Paris alone there remain traces of the aspirations of the reformers, but graduation is confined to the exemptions allowed to small householders. The French have thrown their energies into another channel, and developed the taxation of incomes at the second point where they can be seized—namely, where they are earned.

In the town of Frankfurt, in Prussia, an equally instructive example is to be found. The work of local officials is, in Germany, a career like the Civil Service, to which highly-trained men devote themselves. Frankfurt had the good fortune to have as "Town Clerk" the late Dr. von Miquel, whose

reputation as a financier led the Emperor to select him for the post of Chancellor of the Exchequer. Miquel was the framer of the new Prussian income-tax and also of the Reform Act of 1893 ; and, as we know, he applied the income-tax to local purposes with great reluctance. Before leaving Frankfurt Miquel tried to devise alternative methods of taxation "according to ability," but the house-tax remained ungraduated except for a total exemption to the very poor.¹ So unsatisfactory is the rent-tax found in Germany, that many towns have abandoned these imposts in favour of the income-tax assessed on the national basis—thus, in Prussia, Berlin ; in Saxony, Dresden. Our own national house-duty bears these conclusions out most fully. The inhabited-house-duty provides a limit of total exemption and a scale of graduation. As a result the tax remains quite unproductive, for no statesman could argue in favour of increasing it.

It seems impossible to arrive at any other conclusion than that we must content ourselves with making the best of a bad case. By adopting, say, the example of Paris, and giving total exemption to the very poor and partial exemption to people who pay low rents,² we remove the most flagrant cases of inequity ; but to go farther drives us to make assumptions which are purely arbitrary. Rent as a "local declaration of income" suffers from two great defects : imperfect adjustment to ability, and failure to reach

¹ Total exemption to householders below 170 M. (£8 : 10s.). See *Berichte des Magistrats der Stadt Frankfurt*, 1880-81 to 1885-86.

² In fixing the exact amounts consideration must be given to local circumstances, for rents are higher in some places than others.

wealth above a certain amount, because expenditure on house accommodation ceases, after a certain point, to expand. All we can do is to endeavour to keep the house-tax as low as possible. Mill commended a house-tax for national finance. But with all his enthusiasm for rent as a measure of income, and with all his horror of large families, which made him regard insufficient house accommodation as a check on population, he still pointed to the necessity of restricting the amount of the duty. "So much of the local taxation in this country," wrote Mill,¹ "being already in the form of a house-tax, it is probable that ten millions a year would be fully as much as could beneficially be levied, through this medium, for general purposes." It is very doubtful whether Mill would have approved of the extension which has been given to the house-tax since his day, especially when it is borne in mind that he contemplated exemptions to the poor.

II

Passing next to the case of persons who occupy real property for other purposes than that of a dwelling-house, we find that here also the principle of exemption and graduation is already accepted in the English law of rating. The exemptions *in toto* from all rates, as enumerated in the Report of the Royal Commission, are as follows:²—

The Crown.—By the expedient of not specially mentioning the Crown in the statutes, total exemption

¹ *Principles of Political Economy*, Book v. chap. vi. § 1.

² Final Report, pp. 46-49.

is given in respect of all property held by, or for, the Crown. The Treasury gives subventions in lieu of some of these rates, but not in respect of the following:—Court-houses, police-stations, premises of militia and volunteer corps, and lighthouses.

Local authorities generally have to pay rates on their property, but a few exceptions exist as regards parks, etc.

Places of public worship and certain schools, etc., in connection with them.

Scientific, literary, and artistic societies pay no rates on their premises, if they obtain the necessary certificate under the Scientific Societies Act, 1843.

Sunday and Ragged Schools.

Voluntary Schools.

Besides total exemptions, there are partial exemptions to a long string of persons in respect of rates which are partly “beneficial” but partly onerous.¹ The most important partial exemptions are, of course, those given to the farmer and parson. It is, however, desirable to make a separation between persons who make profits and persons who occupy property for other purposes, such as scientific societies, churches, volunteer and militia corps, etc.

Regarding the exemptions given to the latter,—namely, persons who occupy property for purposes other than those of gain,—the commissioners report that these abatements are objectionable from many points of view. They do not recommend their repeal; they only pronounce with decision against any further extension of exemptions: “Having regard to the fact that

¹ Final Report, pp. 35-38.

Parliament has in the past, by statute, granted certain exemptions, we do not see our way to recommend the repeal of these statutes, in reliance upon which many arrangements have been made and obligations undertaken. But we think that no further extension of the principle of exemption should be permitted.”¹ Such a position is surely untenable. Ability to pay is, on the commissioners’ own pronouncement, the proper criterion of liability to contribute to national services. To allow an exemption here and an exemption there, without following a principle, and to refuse to give consideration to any other case whatever, is an impossible attitude to take up. The commissioners are most decided on this point, and the same views have since been repeated uncompromisingly by the chairman in answer to the deputation from Scotch Churches.

The refusal to extend exemptions would have been intelligible had the commissioners argued that after the precedent set by the Agricultural Rates Act, local authorities would have had a claim to compensation out of central funds if their assessable rental were reduced, and that the commissioners did not see their way to recommend doles except for farmers and parsons. The refusal would have been not only intelligible but justifiable, had it been argued that rates are a land-tax and that exemptions would be mere gifts to landlords. But neither of these considerations was put forward. The reason given for refusing to extend exemptions is this. With the special case of a hospital supported by private subscriptions before them, the commissioners report as

¹ Final Report, p. 5.

follows: "The case against exemptions of particular institutions is, briefly, that such exemptions in effect throw part of the cost of these institutions upon the other rate-payers in the local areas in which the institutions are situate."¹ Such reasoning is not only infelicitous, but grossly unfair. To maintain that an exemption will throw part of the "cost" of an institution on other rate-payers presumes that the existing taxes on the institution are a fair share of burden, and that the same holds good in regard to the taxes on other rate-payers. The method of stating the argument seeks to prejudge the case. For if the burden is greater than equity demands,—if the taxation of a hospital on rent is a heavier impost than a similar duty levied on a bank,—then the commissioners' argument must be reversed. Then, to refuse exemption or abatement to the hospital is, in fact, to compel it to bear part of the "cost" of the bank. Any exceptional taxation of one occupier in an area relieves other occupiers of a part of their due burden. Had the reporters examined the case with the same scrupulous anxiety to do justice which they brought to bear on the grievances of farmers, they would have recognised the inconsistency of their position. In dealing with charity and charitable institutions, there is, it is true, high authority for not letting your left hand know what your right hand doeth, but this maxim should be strictly confined to actions in one's capacity as a private individual.

A decision of Lord Mansfield, which was referred to by the Poor Law Commissioners, is quoted by the Royal Commission as a possible but untenable

¹ Final Report, p. 49.

argument on the other side. With that remarkably clear perception of the nature of our rates which characterised him, Lord Mansfield gave the following opinion in regard to a hospital: "There are only three classes of persons who could be considered as occupiers: First, the lessees, who are mere nominal trustees; secondly, the servants, who had no exclusive rights in the hospital; and thirdly, the poor miserable wretches, the unhappy objects of the charity."¹ It is the latter, of course, who are burdened by taxing the hospital. They cannot pay themselves; but the charitable funds which are collected for their behoof have to be diverted in order to relieve the "other rate-payers" of the district. In the case of municipal or county hospitals kept up out of the rates, the system is seen in all its absurdity. The local authority charges itself with rates in respect of its hospital, and "per contra" it imposes rates to pay the sum so charged. The rates on public hospitals are paid by other rate-payers just like any other expense of the institution. The rates on private hospitals are paid *de facto* by the subscribers, but in reality by the people, who would receive more nursing, etc., if no rates had to be paid. If contribution according to ability is the standard to which rates for national purposes ought to conform, then hospitals and similar institutions should no more pay such rates than they pay income-tax. To tax them is either to relieve "other rate-payers," or in the case of municipal institutions to give unnecessary labour to the book-keeper employed in making the cross entries required.

¹ Final Report, p. 49.

III

The next class of persons to consider are those who earn profits within the local area. The best-known case is that of the farmer. In a purely agricultural parish no better standard of respective ability could be devised than rent. To this day the national government levy income-tax on farmers according to rent. But in a mixed parish it is unquestionably unfair to tax farmers on full rent. This case has been fully argued too often to require further statement. The question of Hereditary Burden is discussed in the chapter on Incidence. The methods of giving relief will be referred to in the chapter on Subventions. It is necessary, however, to say a word regarding the amount of abatement given to a farmer, which is 50 per cent of rent paid. It is quite unquestionable that this sum is far too small. A farmer who pays £1000 rent will do uncommonly well if he earns £500 a year, and at present he is rated on this full sum. If we make a rough assumption that in trade, industry, and other occupations rent is equal to one-tenth of net earnings, and that in farming it is equal to twice the net earnings, we see that before the Agricultural Rates Act farming was taxed twenty times as heavily as trade, and that it is still taxed ten times as heavily. The government have attempted no justification for fixing the "exemption" to farmers at 50 per cent—exemption is, of course, as in the case of the poor, a most misleading phrase. For the national income-tax farmers get an "exemption" of 66 per cent, being assessed at one-third of their rent, and this treatment

is calculated to make them pay on the same basis as other people who are directly assessed on full income. One can, therefore, only suppose that it was a financial and not a logical reason which led to the adoption of the present scale for the local indirect income-tax on farmers.

After giving their consideration to farmers, and recommending that "exemptions" should be granted to the extent of 50 per cent for "onerous" rates and 75 per cent for "beneficial" rates, the commissioners proceeded to deal with other claimants. Parsons they had already provided for in a special report, and all that remained to do was to make fitting reference to the rest of the nation. In a passage, which by virtue of its caustic brevity might be classed as an effort at wit, this vast field is reviewed :—

There remains the case of shops, manufactories, railways, and other industrial properties, which might probably be regarded as having some claim to differential treatment. We do not, however, consider that any alteration in the law is desirable in these cases. Certain of the properties are already classified for sanitary rates under the Public Health Act of 1875, and, as regards onerous rates, which should be levied as far as possible on the principle of ability, we do not think that any scheme could be framed which would not create great anomalies, nor does it appear to us that the full annual value of any of these properties is, generally speaking, out of proportion to their respective abilities.¹

Against this judgment, which seeks to dispose of one of the most important questions of the day by introducing it at the fag-end of a chapter,² it is necessary to protest most emphatically. The com-

¹ Final Report, p. 38.

² *Ibid.* (last paragraph of Chap. VIII.).

missioners devoted the most careful and elaborate portion of their report to proving that, judging ability by income, a claim to abatement is made out in the case of farmers. They did the same in dealing with parsons, and devoted great pains to the subject, deciding even not to permit the existing injustice to go on till they should have finished their deliberations, but to issue a special interim report, which the government immediately acted upon. With the justice of these abatements it is impossible not to agree: it may even be admitted that the flagrancy of the grievance demanded special urgency in its remedy. But the finding that all other claims are unfounded is a gratuitous assertion. Not a shred of evidence has been produced, not even an attempt has been made to bring evidence that the present rating of industrial concerns is in any sense satisfactory. It is impossible for a country like England, which depends for its prosperity solely on industry and commerce, to shelve so important a question as the taxation of these employments. If we briefly review the arguments of the commissioners we shall see how superficial they are. An admission is made, in the first place, that industrial concerns "might probably be regarded as having some claim to differential treatment." For continuing the present state of affairs three reasons are brought: (1) Certain of the properties are classified for sanitary rates; (2) many anomalies would be created by reforms; (3) it does not appear that the full annual value of any of these properties is out of proportion to their respective abilities.

The first of these arguments has nothing to do with the discussion. It is no reason for refusing

classification for national rates, that classification is given for sanitary rates. Further, the industrial concerns which receive classification for sanitary taxation are only canals and the lines (not stations or depots) of railways.¹ In dealing with the enormous mass of trading enterprises, it is misleading to refer to two trifling exceptions as "certain of the properties."

The second argument surely takes an exaggerated view of human fallibility. It is to be hoped that attempts to remove anomalies do not usually create greater anomalies. To treat farmers in one way, and "other properties" in another way, is certainly anomalous, but a well-directed effort might be more successful.

The third argument bears fully on the point. "It does not appear to us that the full annual value of any of these properties is out of proportion to their respective abilities." That is unquestionably true. One "property" has precisely as much ability as another "property," because no property has any ability. If, however, the assertion is to be held to amount to this, that the annual value of trading premises is the measure of the ability of the occupiers, then, in Lord Salisbury's words, "that is rather a formidable doctrine to lay down."

The finding in favour of retaining present methods as the best possible system was not made unanimously. Two commissioners, Mr. Stuart Wortley and Mr. Orford Smith, reserved their judgment on this point, and the following passage refers to their views:—"Some of our members were of opinion that this system (the classi-

¹ Final Report, p. 5.

fication of agricultural land) should be extended, and that in a method of general classification of all properties having some relation to considerations such as . . . whether the assessment of the properties is any real test of the ability of the occupiers to bear taxation, would be found a solution of the anomalies which exist in the present system.”¹

To have adopted such a point of view would have been contrary to the fundamental position taken up in the report, for to consider the ability of occupiers is to accept the principle of the local income-tax, which the commissioners strenuously opposed (subject to usual reservations as to farmers and parsons). It is again necessary to face the income-tax question, and this time the difficulty is even greater. The problem is raised somewhat vaguely by the dissentient commissioners. “A method of general classification of properties having some relation to considerations such as whether the assessment of the properties is any real test of the ability of the occupiers,”—that does not take us very far. The crux of the whole problem lies in this, that while house-rent may, roughly, bear a proportion to the occupiers’ income, shop-rent, office-rent, warehouse-rent, etc., are only remotely connected with trade profits. In dealing with the rent of dwelling-houses we have the broad fact to go on, that a big house contains a rich man, and a small house a poor man; further, that the rich man does not spend as large a portion of his income on his rent as the poor man does. But to the premises of trading concerns no such test can be applied. Even in the same industry—say cotton-

¹ Final Report, p. 35.

spinning—the size of the mill is no guide to profit. To different industries—say the manufacture of ropes and of trinkets—the test is still more misleading. One would probably not be far wrong in saying that in the case of traders rent has no relation whatever to ability. The same applies to commercial pursuits. The rents paid by a ship-broker and an under-writer bear no proportion to profits earned.

A similar difficulty has arisen in France, and has been met by the *contribution de patente*. Direct assessment is unknown in France (except in the case of the cadastre of land), and the problem was to supplement the tax on occupiers' dwelling-house rent, by an impost on profits earned in trade and by personal exertion, which should be assessed solely by outward criteria. Before passing to the consideration of the complexities which must be involved in such a proceeding, it is necessary to refer to the present English assessment of the annual value of trading premises. It must not be assumed that because existing methods are inefficient, and indeed useless, they are therefore simple and free from difficulty. If annual value of trading premises could be determined easily, this ease might be pleaded in its favour, even in spite of the fact that the result could not claim to have any connection with contribution according to ability. Existing rates would, at least, be an easy means of collecting money—a second customs and excise. But the determination of annual value is by no means easy. Trading and industrial premises are frequently occupied not by tenants, but by their owners, so that no rent-test can be applied. A legal fiction of "contractors' rent" has to be employed,

which is based on a percentage on the cost of the building, and a percentage on the value of the site. Even then the evidence is not always accepted as conclusive proof of "the rent at which the property might reasonably be expected to let from year to year," and further particulars have to be gone into. Fixed plant and machinery, also, are local, visible, and profitable, and therefore by legal decision ratable. The valuation of trading premises and of plant and machinery causes enormous trouble, and when accomplished it furnishes no index whatever to what is wanted,—namely, profits. If one reads the evidence collected by the Royal Commission from the experts employed in the valuation of, say, Woolwich Arsenal, or some great cotton mill, and considers that all this stupendous labour¹ is perfectly futile as regards a basis for equitable taxation, it seems reasonable to hope that the same energy may some day be devoted to a useful object.

The *contribution de patente* is one of the greatest monuments to French ingenuity which exist. The legislature has been steadily working at the improvement of the tax for over a century. In 1798 it was realised, as was mentioned some pages previously, that the house-tax is incapable of being developed into a satisfactory income-tax. The scheme of 1791 was therefore abandoned, and the tax on profits earned was drawn into the foreground. This tax had been regulated by the same law of 1791, but in 1798 it received the shape which in the main it retains to this day. A description of the tax is given in an

¹ See also debate in House of Commons on second reading of the Rating of Machinery Bill—*Times*, 10th April 1902.

appendix, more to show what can be done in the way of taxing trade profits by outward criteria, than to hold the method up as an example. In judging the method from the point of view of English requirements, it should be remembered that the French tax serves both national and local purposes, while we wish a local tax only.

It may be that better guidance is to be got from Prussia. The local taxes on trade profits are at present levied on the assessment for the former national tax, which was entirely handed over to local authorities in 1893. Such a system is not considered satisfactory, and full powers are given to local authorities to develop a tax of their own. In giving instructions for this purpose the central government confined itself to laying down certain general principles, for it was decided that no statute can determine matters of detail in such a question. Local conditions vary so infinitely that a scheme suitable for one locality would be inapplicable to another. A mining district requires one kind of treatment, an industrial town another, a trading port a third; while even in cases otherwise similar, the different degrees of local enthusiasm for the work of self-government make it impossible for the State to propound cut-and-dried measures. Such a system seems a more reasonable ideal to set up than the rather mechanical *contribution de patente*, although the German plan involves local self-government in a degree which cannot be dreamt of in the present English "chaos of areas and chaos of authorities." Possibly a rough kind of rate on trade premises might be constructed more easily and quickly, but in consideration of the highly unsatisfactory

nature of the house-tax a thoroughly efficient substitute, or better, supplement should be provided.

It remains to consider how far the local tax on incomes where they are enjoyed and where they are earned would attain the essential of equity—namely, universality. The house-duty must be paid by all who do not expatriate themselves; the tax on premises used for purposes of trade, etc., would be paid by every one with the following exceptions:—

1. Those who earn their incomes in the premises of others (wage-earners).
2. Those whose capital is invested in undertakings which are not intended to be productive of profit (*e.g.* debts of central and local authorities).
3. Owners of investments in foreign countries.
4. Owners of ratable property in England.

In discussing this question we must remember the character of local taxation, and bear in mind that it is based on indirect and not on direct assessment. The house-duty is already a rough income-tax of its kind, and the justification for a tax on trades, etc., lies only in the consideration that the house-duty is too imperfect and altogether objectionable an impost to serve as a single tax. We must be careful not to carry the supplementary impost on incomes earned so far as to aim at a general income-tax, and on this ground the first three of the above classes must be ruled out. As regards owners of ratable property a claim might, however, be advanced that they should be treated on the same footing as those who earn their incomes in trades, industry, and professions. This

proposal may be much debated, and it is merely thrown out as a suggestion, but some practical aspects of the question may be referred to:—

(1) The question of contracts (so important in the case of rating for improvements) does not arise here any more than in the case of adding a penny to the national income-tax.

(2) The doctrine of the “effect” of occupiers’ rates cannot be allowed to interfere with owners’ rates. It is perfectly possible that occupiers’ rates have the “effect” of doing harm to the owners of the property taxed (as well as to occupiers) by diminishing consumption. But this possibility only proves, as Professor Seligman expresses it,¹ that occupiers’ taxes are objectionable imposts because of their widespread “effects.” Once a practical financier decides to adopt an occupiers’ tax in spite of these objections, the doctrine cannot be allowed to interfere with a scheme of taxation. In national finance no one dreams of regulating taxes according to the “effects” of other taxes. To take the example of the national inhabited-house-duty, or the beer-duty: the working theory that these taxes are restricted in their “effects” to the consumer is not generally admitted. On the analogy of the “effects” of local rates, landlords and the “trade” might argue that being burdened by national house-duty, or beer-duty, they should get special consideration in the matter of, say, income-tax. No one would admit this claim, and yet it would be the counterpart of an argument that owners of ratable property should be exempt from rates *qua* owners.

¹ *The Shifting and Incidence of Taxation*, p. 313.

(3) The tax would have to be co-ordinated to the taxes on other incomes where they are earned—a matter of some difficulty, because the latter are indirectly assessed, while the owners' tax would be direct. To take an example: Let us assume, fixing a sum at random, that persons engaged in trades, etc., pay one-tenth of their net income in rent. A local indirect rent-tax of 2s. 6d. per £ would thus equal a direct tax of 3d. per £ assessed on net income. The owners' tax would have to be fixed on the basis of the latter charge, because it would be imposed on the whole of the income earned and not by an outward criterion. The present writer does not for one moment wish to put forward a suggestion that the scandalous system prevailing in Scotland, by which one-half of all the important "onerous" rates is directly placed on owners of real property should be extended to England. Such taxation is as inequitable as is to be found in any country, and it exists in Scotland absolutely without rhyme or reason.¹ All that can be demanded in a system of taxation according to ability is that, in the absence of a direct income-tax, the various imposts should be as little out of proportion to each other as possible. Neither the claim to tax traders nor the claim to tax "purveyors" of real property can be defended on principle; they rest solely on expediency. The central fact is the imperative necessity of keeping the house-duty low. In endeavouring to accomplish this end, the logical consistency peculiar to direct taxation must be absent, and compromise must take its place.

The author has endeavoured to sketch the broad

¹ See Poor Law Act (Scotland), 1845.

outlines of what he believes would be a system of finance at once intelligible, if judged by abstract principles, and practically possible in a country like England, where people are known to be able to manage their own affairs. But when we consider the prospects of local taxation reform of such lines, or indeed on any lines, which would bring the contributions of individuals into conformity with the accepted canons of finance, it is unfortunately necessary to confess that the requisite steps can only be taken gradually. It would have been a fascinating task to have been able to describe a project for giving immediate relief to those who are nigh overwhelmed by the burden of rates. But if exemption were given now, where could the necessary money be found to make good the deficiency? Centuries of systemless legislation have produced conditions which can only be removed carefully and step by step. The house-tax is not capable of being developed very far, and it would not raise money in the areas in which the greatest relief is necessary. Very little also can be done towards the indirect assessment of trade profits under existing conditions, however productive such an impost may eventually become. It is obvious that if you have a legislature which inaugurates its connection with local taxation by a measure like the statutory benevolence scheme, which three centuries later passes the law of 1836, and throughout does absolutely nothing to guide the course of events, you must eventually land in administrative bankruptcy. Our statesmen have saved themselves an enormous amount of labour by leaving matters to "bungle along somehow," and the country must take the consequence. Local

finance has been managed on the lines on which the smallest of rural tradesmen conducts his shop. There has been no display in the window ; no provision for anticipating the wants of customers ; but when the door-bell tinkled a minister would appear and serve the rate-payer with a halfpenny worth of the reform that was asked for : the rendering liable of underwood, the exemption of a chapel. In course of time a change took place. The customers' visits became more frequent : the tinkling of the bell changed to a prolonged and violent vibration, and the minister in desperation gave grants out of the common purse. When these failed absolutely, doles for limited periods were tried. Immediately a flock of claimants came forward, and the minister had to protest that his stock of reforms was quite run down, but that he hoped the gentlemen would come back in five years—A.D. 1901. They came, but in the meantime the Royal Commission had reported reform to be impossible. Reform is not easy ; it is therefore fantastic ; the very conception is obscure. The proper things to have are the subventions already in stock. To tempt the incredulous customers a brilliant recipe is brought over from Paris. The stale old stock is to be hashed up and served *à la française*. Pending a decision on the respective merits of plain stock and hashed stock, it was proposed to tell the customers to come back in other five years. The enemies of the minister protested that three years is long enough. The minister agreed to split the difference. So back we are to come A.D. 1905.

CHAPTER VII

NATIONAL SUBVENTIONS

How to define the limits within which local authorities and the central government respectively should contribute towards the expense of carrying out the decentralised administration of national services is a question which has long occupied the various nations of Europe.¹ Difficulties arise chiefly at two points. In the first place it is impossible to lay down any hard and fast rule as to what should be considered a "national" service. Secondly, the tendency of State aid to undermine economy must be most carefully guarded against. Any failing in these respects not only leads to waste of public money, but threatens to demoralise local administration. In recommending that subvention should be taken as the guiding principle by which alone local finance can be developed, the Royal Commission dismissed the apprehensions expressed by witnesses in regard to extravagance by saying: "In our opinion any danger under this head

¹ The leading treatise on the subject is: *Über finanzielle Konkurrenz von Gemeinden, Kommunalverbänden und Staat*, by Freiherr von Reitzenstein. See also Schönberg's *Handbuch der Nationalökonomie* and Frankenstein's *Handbuch der Staatswissenschaften*, and the various authorities there cited.

has often been very much exaggerated.”¹ This was the only position for people to take up who recommended that the idea of reform should be rejected; but the better opinion seems to be that the danger of wasteful expenditure is inseparable from subvention and calls for unceasing vigilance on the part of the State.

The whole system of central assistance is, however, condemned root and branch in England by various classes of persons. Most important is the opposition raised as a matter of principle by party politicians. Grants in relief have been given in England for reasons which their promoters have frequently failed to analyse. As an immediate justification there has usually been a reference to the incidence of rates which have been declared to fall exclusively on real property. This was the reason which led Mr. Balfour to describe grants as “this admirable policy of subvention.” The opponents of a ministry, thinking it to be the first necessity of the age that the existing government should be superseded by themselves, are not slow to use their opportunity. If rates fall on real property and not on personal property, then a reduction of rates can only benefit owners of real property, and by a peculiar course of logic is described as a dole to landlords. The stigma attaching to the word “dole” supersedes argument; the character of the alleged recipients shuts out considerations of equity. It need hardly be repeated that rates no more fall on ratable property than the excise falls on excisable property.

Equally unreasoning are the objections raised by people like Lord Farrer, who describe subsidies as

¹ Final Report, p. 19.

“bribes to local authorities to do their duty,” or as “transfers from the shoulders of property and accumulated wealth to the shoulders of poverty and industry.”¹ The first phrase is based on a most mischievous perversion of facts, and entirely ignores the character of decentralised administration, while the second is simply the catchword of a stump-orator. Rates are paid out of the products of industry quite as much as national taxes.

Of a very different nature are the arguments brought forward by the great number of thoughtful men who have occupied themselves with the subject. There cannot be a moment's doubt that doles—using the word as covering every kind of subsidy—are dangerous and highly objectionable. Complete separation between national finance and local finance is certainly the ideal condition. To have, quoting Lord Farrer's extreme statement, “each local authority levying its own taxes, within its own area, upon its own subjects,”² would not only obviate all the financial risks connected with doles, but save infinite trouble, for to distribute relief properly is no easy matter. But such simple conditions can only be held up as the standard of excellence in practice by refusing to make allowance for the characteristic attributes of local government. The sole reason for delegating the administration of certain national duties to local authorities is that the device secures the advantages of local knowledge; and the superiority of local authorities in this respect is due to nothing but

¹ *Mem.* p. 73. (The argument being that rates fall on property while the imperial taxes which provide subventions fall on poverty !)

² Mr. Goschen's *Finance*, p. 58.

the smallness of the area which each of them administers. In such a system of small areas it is unavoidable that some should be poorer than others. If, therefore, the duties connected with carrying out the national policy are to be performed on the same scale in the poorer areas as in the rich, then justice demands that the poor should receive assistance. Lord Farrer's "let those who call the tune pay the piper,"¹ which he uses as an argument against doles, is the justification for doles. The tune to which local authorities spend is piped by the central government.

The theory that the cost of local undertakings should be defrayed by local taxation is only applicable as an axiom to those departments in which local authorities act on their own initiative and as truly self-governing bodies. In respect of national services local authorities are not principals, but mere executive agents. The justification, therefore, for defraying the cost of the work of agency out of local taxation is simply that such a method is the best way of making the agents interested in economy. Rates for national services are local, not as a matter of principle, but on grounds of practical expedience. Regarded in this light, there are two considerations at war in the relief of decentralised finance: the principle of equity, which demands that the subsidies should be large; the principle of economy, which demands that they should be small. The latter principle must be the predominating one.

The most economical methods of giving relief to local taxation have been very carefully studied on the Continent, and the general result may be broadly

¹ *Mem.* p. 69.

expressed by saying that doles do not cause extravagance if they are given to poor districts. Poverty and wealth must, of course, be taken in relation to sources available for taxation. Lombard Street itself may be a very poor ratable subject. The more inefficient the system of local taxation, the larger must be the central subsidies. A great deal of evidence was taken by the Royal Commission as to the results produced by central grants. The witnesses were hopelessly divided on the subject. Some maintained that in their experience the receipt of State aid gave rise to wasteful expenditure; other witnesses, seemingly of equal authority, maintained the opposite. The only possible explanation of these contradictory opinions is that, as a matter of fact, a dole sometimes does, and sometimes does not, lead to waste. In poor districts, where the pressure of rates is high, the dole will be used only to reduce taxation, and not as a pretext for incurring further expenditure. In rich places, where the desire to keep down the rates is less, the money will be wasted. As the Edinburgh Chamber of Commerce wittily remarked in a recent report, the money is given as manna was sent to the Israelites, on the understanding, namely, that it shall not be hoarded, but spent on the same day, or year, in which it has fallen from heaven. It has to be got rid of.

This conclusion, that doles only cause extravagance if they are given beyond the needs of a locality, may be illustrated from the experience of Prussia. The Prussian Government is very unwilling to give doles, because the Chancellor of the Exchequer finds it exceedingly hard to raise money. In 1885, however, a coalition of various parties in the *Landtag* compelled

the government to pass a big dole Act.¹ These doles were given to local authorities all and sundry, and apportioned one-third according to population, two-thirds according to the yield of certain taxes; that is to say, without consideration of individual circumstances, but, like English doles, according to a general standard. The government watched the result carefully, and after some years repealed the Act. Speaking on the proposal before the House, Miquel, the Minister of Finance, said: It has been found that in some districts the result of the grant has, without doubt, been beneficial. In other cases, however, there has not been the same necessity for mitigating the burden of taxation, and this money, flowing in without effort or sacrifice, has been used for schemes for which there was, to say the least, no clamant necessity.²

Before passing to the consideration of the best means of attaining economy in the distribution of doles, it is necessary to deal with a criticism made not on doles themselves, but on the suggestion for equalising local "national" rates between district and district—for the obvious result of giving relief according to the necessity of districts will be to partially remove the wide differences at present existing in the "national" rates of various local bodies. The disapproval expressed is important, because it has been delivered from the commanding position occupied by the President of the Royal Statistical Society in giving his inaugural address. Lord Avebury's censure is particularly interesting, as affording an excellent example of the contradictions people are led into if they adopt no theory of

¹ Lex Huene.

² Quoted Frankenstein, *Handbuch der Staatswissenschaften*.

incidence. It will be observed that Lord Avebury begins by regarding rates as an exclusive burden on the owners of land, and ends by treating them as a burden on tenants. Lord Avebury compares Essex and West Ham.¹ The value of land in Essex has recently fallen from 80 to 33 per cent, while in West Ham land is in some cases worth 100 to 200 per cent more than it was before. Local rates in Essex are low; in West Ham they are high. "Is it then reasonable and just," asks Lord Avebury, "to tax the men whose property has fallen, in order still further to enrich those who have made a large profit? . . . If two men invest in two railways, one of which is more prosperous than the other, would any one propose to equalise their dividends? The above case of rates is even stronger, because between rural and urban districts the proposal is to relieve the man whose property has risen, at the expense of the man whose property has fallen." So far rates are regarded as "a deduction from land of the nature of a rent-charge." Even admitted that this were the case, it is hardly necessary to take up the reader's time by pointing out how untenable Lord Avebury's argument is. If rates were a land-tax, there could be no claim on the part of Essex landlords to be taxed for national services at, say, 1s. per pound, when West Ham landlords are taxed 5s. per pound. It might be divine justice to tax people at a low rate of income-tax if their investments are falling, but it is not human justice. Lord Avebury goes on to examine the claim that a scheme of equalisation makes—say, the millionaires of the City contribute to the rates in poor districts, say,

¹ *Journal of Roy. Stat. Society*, 31st December 1901.

Clerkenwell. In doing so, he treats the rates in Clerkenwell as paid by the owners of land; in the City as paid by tenants. The transition is made in one sentence: "The principal *landowner* of Clerkenwell is, I believe, a much esteemed and very rich nobleman; who are the City *rate-payers*?" The answer is, that these rate-payers are far from being mainly great merchants and millionaires, but that the rates fall "principally on trustees of charities and institutions, of marriage settlements, of widows and children, on a great number of persons of moderate incomes, and on shops." Therefore, argues Lord Avebury, schemes of equalisation are inequitable: they relieve a rich owner in Clerkenwell, and burden worthy occupiers in the City. Where, we may ask, do occupiers in Clerkenwell come in? There is a danger, however, that the inconsistent nature of Lord Avebury's reasoning will be forgotten, while his simile about the dividends of two railways will cling to the memory. The author, therefore, ventures to suggest another allegory, which is truer to the facts of the case. An excellent parallel to rating for national services might be taken from the life-history of that fascinating insect, the Bee. Every one knows that honey-bees are peculiarly intelligent creatures, who lay up stores of food for the winter months. The bumble-bees, on the other hand, are poor, stupid insects, who regularly die of starvation every time the summer ceases; the hibernating pupæ alone surviving. Now imagine that the Queen of all the Bees issued a decree that her starving subjects were to be clothed and fed on the standard of the honey-bees, and that the funds were to be raised "by taxation of every hive according to

the ability of the hive." There you would have modern local finance, and a clear case for graduated doles. The reader may also be reminded that Lord Avebury's views are opposed to the teaching of experts.¹

The translation of the principles of graduated relief into practice is exceedingly difficult, but every deviation from them, which causes more than is absolutely necessary to be given to a particular district, involves waste in the finances of the exchequer, and, in the case of the local authority, undermines economical management. In fact, the extravagance produced by doles in cases where they are given to authorities who do not urgently require relief is said to go beyond the amount of the dole itself, especially if, as sometimes happens, the expenditure is not defined. People who are familiar by experience with the working of local finance, maintain that the dole given to a rich locality immediately calls into being a number of schemes how to spend it. These schemes, brought up at different periods, are said to cause an expenditure greatly in excess of the dole itself. Dangers and difficulties of this nature explain the displeasure with which doles are regarded even by those who do not profess the theory of incidence of the agitator, or oppose relief to rates from the principles of party politics. But to condemn subsidies altogether is in practice impossible. It is a misfortune, but it is a fact, that decentralisation cannot be carried out except with their assistance. The

¹ See, for instance, Professor Marshall's evidence (quoted *ante*, p. 152): "It is, therefore, not true that an equalisation of onerous rates would enrich site-owners at the expense of occupiers."

nation is not justified in demanding the local financing of every scheme that may be the better of supervision in detail.

The existing system of distributing doles in England fails in several respects to attain the greatest possible economy to the State and the least possible demoralisation to local authorities. The difficulties are mainly two, as has already been pointed out—namely, the choice of the purposes to which relief may be given, and the method of distributing the money. As regards, in the first place, the services which may be subsidised, it is admitted both in England and in foreign countries, that central relief can only be claimed for services which are regulated by national policy, and not by local interest. In theory the distinction is perfectly clear, but the practical application is less simple. There are many services in which the national element merges into the local. In regard to main roads, for instance, we may say that the great arteries of the road-net which covers the country are of general interest. A parsimonious county council cannot be allowed to let them fall below a certain degree of disrepair. Yet how is the line to be drawn between main roads and by-roads? The criterion “general” and “local” is not universally applicable without inquiry into circumstances, but the distinction is still of great practical value. There are local services which are in no sense whatever national. Such services, and they are usually those in which the district can be niggardly if it likes, and in regard to which it is not troubled by “inspectors,”¹—these services do not in any way concern the central body.

¹ Reitzenstein, *op. cit.*

The lighting, cleaning, paving, or improving of streets, or whatever other things local love of comfort, cleanliness, or beauty may demand,—these are no objects for a dole.

On the whole this principle has been followed in England, but not completely. The desire of our legislators to make everything connected with administration as easy as possible has led to a departure from the rule of subsidising national services only. Up to 1888 doles were annually voted by Parliament out of the “common purse.” A large sum given by way of subsidy is still treated in this manner (*e.g.* relief to elementary education), but Mr. Goschen made a departure from that practice by adopting a device used in France, Belgium, Germany, and other foreign countries. He ear-marked certain national taxes and set them aside, once and for all, for the purpose of relieving rates, intercepting the proceeds by a “Local Taxation Account” before they reach the “common purse.” The contents of Local Taxation Account are not distributed by Parliament directly, but on the foreign system. The Local Government Board draws on the Local Taxation Account, and pays the doles to County and County Borough Councils, which are entrusted with the application of money according to the directions of the Act. The taxes drained off to Local Taxation Account are roughly—

1. Certain license duties.
2. A percentage of the death-duties on personalty.
3. The beer- and spirit- sur-taxes.

The proceeds of these sources of revenue are not

carried to the "common purse," and Parliament is thus saved the annual commotion caused by the appearance of the doles, while the "common purse" is said to be separated from the "dole purse."

As to the advantage of the "dole purse" as a saving of trouble to Parliament, there can be no doubt. But the gain is purchased at an enormous expense to the tax-payers. The essence of the system is this, that Parliament does not annually consider the votes in relief of local taxation, but definitely appropriates certain items of revenue to these purposes. Necessarily it follows that the contents of the "dole purse" and the votes in relief do not tally, for the yield of the appropriated taxes is a variable quantity. To provide for this complication an elaborate system was devised.¹ Provision was made for the contingencies—(a) that the contents of the "dole purse" were too small; (b) that they were too large. If the contents should be too small, it was arranged that certain purposes of relief should be abandoned. If, on the other hand, the yield of the appropriated taxes should be too large, the local authorities were given permission, in a vulgar phrase, "to keep the change." The expansiveness which is the characteristic of British revenue has brought it about that the contents of the purse exceed the prescribed relief, and the local authorities accordingly have every year kept the change. From the point of view of tax-payers this money is wasted, for it may be applied to local schemes with which the central government has nothing to do. Parliament cannot be bothered to arrange what is to be done with the money, and the local authorities may therefore spend

¹ Local Government Act, 1888 (51st and 52nd Vict. cap. 41), § 23.

it as they like.¹ An excellent statistical table is given in the final report of the Royal Commission for the purpose of illustrating the advantages of the "dole purse," and the figures bring out clearly the amount of the "change."²

	1895-96	1896-97	1897-98
	£	£	£
Contents of purse	5,996,036	5,883,072	6,264,056
Prescribed purposes of relief	3,545,960	3,641,093	3,680,021
	2,450,076	2,241,979	2,584,035
To be spent on Technical Education, if local au- thorities think fit	727,288	714,631	812,403
	1,722,788	1,527,348	1,771,632

The sums ear-marked for the relief of the expense of technical education are applied to this purpose at the discretion of local authorities,³ and we see therefore that the cost of the "dole purse" system to public tax-payers is roughly two millions a year.

The saving of trouble to the legislature brought about by removing doles from the reach of party principles, which can only be done by withdrawing them from the cognisance of Parliament altogether, is a

¹ Numerous instances might be given of the difficulty some local authorities find in spending the "change" on the dole purse. A large town in Scotland has for many years past laid the money by, and when the accumulations are sufficient, a new town hall is to be built. One is reminded of the expedients Mr. Carnegie has to resort to for disposing of his surplus cash.

² Final Report, p. 9.

³ See explanatory statement by Sir E. Hamilton. *Mem.* p. 70.

real advantage, especially to one party. But the other alleged advantages of the two-purse system are purely imaginary. It is said, for instance, that the method is clearer; that it makes a complete distinction between the taxes applied to central purposes and local purposes if revenues appropriated to doles are not brought into the "common purse" at all. In the first place, only a portion of the sum paid in relief of rates has any connection with Local Taxation Account. Very nearly one-half of the national subventions are given directly by Parliament out of the "common" purse. As regards the clearness of the "dole" purse, Lord Farrer's evidence is conclusive. Lord Farrer endeavoured to master the working of Local Taxation Account for writing the memorandum which he submitted to the Royal Commission. He found himself unable for the task. The confusion of the accounts is such, that it is scarcely possible for any one to ascertain how matters stand.¹ Accordingly Lord Farrer requested the Treasury to furnish him with the statement he desired. These particulars are incorporated in the memorandum, and regarding them Lord Farrer wrote: "The mere fact that it requires the work of a careful expert to give the above summary of the present state of things, and the complications obvious in the summary, are enough to condemn the present system."² The idea of keeping two purses is, indeed, absurd. One knows that ladies sometimes keep accounts in this fashion. If they wish to separate money, they find that various purses muddle them less than other methods. Most people are, however, aware of a simple device of book-keeping which serves every

¹ *Mem.* p. 70.

² *Ibid.* p. 73.

purpose. Instead of being conducive to clearness, the two-purse system creates such confusion that no one but the person concerned can unravel the mystery.

Another advantage attributed to the "dole purse," and one which would certainly be a strong recommendation, is that a dole out of it is not a dole. Twelve members of the Royal Commission have advanced this somewhat paradoxical proposition. They contend that subventions paid to local authorities out of the "dole purse" are not grants out of central funds at all.¹ On the face of it this is correct. The money given out of the "dole purse" has never been in the national fund; therefore it cannot come out of the national fund. Sir E. Hamilton and Sir G. Murray beg to differ from this reasoning.² Whether you give money out of the "common purse" or out of the "dole purse," the fact remains that it has come out of the national system of taxation, and not out of local taxation. Local authorities have no control over the revenue of the "dole purse." *Qua* subjects of the central government their constituents contribute to it, but they may be as economical as they like, or as profuse as they like in their local spending, without producing any direct effect on their compulsory contributions to their doles.

¹ Final Report, p. 17. "It is contended that Assigned Revenues are in reality grants from central funds, but this is fallacious." "If new taxes are levied and assigned to local expenditure, as was the case with the additional beer- and spirit-duties imposed in 1890, it is difficult to see how it can be contended that the relief to the rates thus afforded is derived from a 'common purse' to which all taxpayers have contributed." In another passage the only connection which the State is admitted to have with doles is that it gives its assistance in the collection and allocation of the revenues concerned (p. 23).

² *Ibid.* p. 112.

Suggestions are made by the twelve commissioners, who favour the retention of Local Taxation Account, to overcome the objection that doles are doles and not local taxes. A highly complicated distinction between "localisable" sur-taxes (licenses) and "non-localisable" (death-duty) is proposed,¹ but it is doubtful whether the scheme could be worked; it is certain that it would be useless, for the rate of sur-tax would not be affected by local economy or the reverse. Neither does the suggestion seem very valuable that "special stamps, and new and distinctive forms of license, might have been devised to inform the public mind of the real destination of one moiety of the probate duty, or of the transferred licenses."² You might have blue paper for national taxes, and pink for local sur-taxes, but fancy colours will not change a uniform national tax into a local rate. Licenses, besides, are indirect taxes (collectors' point of view), and it would take the rate-payer a long time to realise that the blue license did not matter, but that he must be economical when the pink one came to be shifted on to his shoulders. The difference, indeed, between a dole out of the one purse or out of the other, is that popularly made between tweedle-dum and tweedle-dee, or, as Sir E. Hamilton and Sir G. Murray more euphemistically express it, a distinction without a difference. The whole idea of the "dole purse" is alien to England, and therefore in England senseless. The majority of the commissioners may describe Mr. Goschen's so-called invention as "a remarkable monument to his ability and acumen in dealing with one of the most difficult subjects which

¹ Final Report, p. 30.

² *Ibid.* p. 18.

have come within the province of modern statesmanship,"¹ but on the whole most people will incline to the opinion of the minority, that the arrangement would never have survived to the present day had not its complexity made it incomprehensible.²

The "change" arising on Local Taxation Account is the only State money given systematically in aid of local expenditure without directions from the central government. In the case of other doles the purposes are carefully chosen. The second difficulty which arises in connection with national subventions is how to distribute the money among the various local authorities. The methods we adopt in the distribution of doles are open to considerable criticism; indeed the methods are so bad as to be better characterised as beneath criticism.

The method of distribution adopted under the Agricultural Rates Act has occasioned the most violent ill-feeling and given a handle to all kinds of agitators. However inequitable the treatment of farmers and parsons may have been, while their ability to pay rates was estimated by full rent or tithe, and it was grossly inequitable, there was no justification for the government to reform matters by the easy expedient of stepping in and paying one-half of these people's taxes for them. If certain rate-payers are too heavily taxed, let them be taxed more lightly. To pay a share of their taxes out of central funds is largess, not justice. It was inevitable that such a course should be branded as favouritism, and give a most tangible ground for an outcry. The manner in which the transaction has been carried through has

¹ Final Report, p. 16.

² *Ibid.* p. 115.

not only placed it in the most unfavourable light possible, but in a light which is entirely misleading and unjust to those for whose benefit the measure is intended. Imagine an ordinary rural parish, a village with its tradespeople and doctor, etc., and farms round about. Farmers were formerly rated by too high a measure in comparison to the villagers. The comparative measures have been adjusted, and though farmers are still flagrantly overtaxed, they are appreciably relieved. The assessable basis of the parish is now brought down to nearer its proper proportions. Who is it that requires relief? Surely the other rate-payers, and not the farmer. The farmer is now rated by a very high measure, but he is perfectly willing to pay on that standard. It is the other rate-payers who would not be willing to pay. The share of their burdens, which the farmer had formerly borne, would now fall on the proper shoulders. Had no grant been given, the taxes of other rate-payers would have gone up with a run. The government went, of all people in the world, to the farmer, sympathised with him, told him how ill-used he was, and promised to pay for *him*. Naturally an outcry was raised. Sir Henry Campbell-Bannerman refers to the measure among his supporters as "our friends, the Doles."¹

It does not follow that the method adopted is only superficially inequitable, and that it bungles out all right in the end. By making the farmer the medium through whom relief is given, a district may receive too little, or it may receive too much. The claim to relief depends on whether the basis of assessment of

¹ Speech at National Reform Union, 14th June 1901.

a parish, after occupiers' rents have been classified, is too small to enable that parish to provide education, poor-relief, etc., on the compulsory scale. It may by chance happen in some cases that the amount of agricultural land in an area is the measure of that area's poverty, but to lay down the general rule that the relief of each parish shall depend on the number of farmers there, as the salvation of the cities of the plain depended on the number of righteous men present, savours too much of a rule-of-thumb to be accepted as an axiom of government. A correct distribution of relief—that is to say, economy to the Exchequer and equity to the district—can only be obtained under the Agricultural Rates Act by haphazard. The probability that the grant will be equitable is no greater than the prospect that it will be both wasteful and demoralising. There are many parishes in which the cost of maintaining the uniformity of national service falls very lightly, and still these parishes may have agricultural land in their area.¹ Other parishes are heavily burdened, but have none of those righteous men who attract the golden manna to the district as hills draw down fertilising showers.

Another method which we adopt in distributing relief is even more indefensible, because it is consciously inequitable. The doles out of Local Taxation Account are given to each district in the same proportion as grants used to be given in 1888. It was not Mr. Goschen's original intention to give the money after this method; he adopted the plan solely for reasons connected with the pressure of business in

¹ See figures given by Sir E. Hamilton and Sir G. Murray, who condemned the Agricultural Rates Act. Final Report, p. 117.

Parliament. No severer, and at the same time more authoritative criticism has ever been made on this measure than the opinion expressed at the time by the leading financial journal of London.¹

We have it on the authority of the Chancellor of the Exchequer, that the plan on which the government now propose to distribute the contribution from the probate-duty in aid of local expenditure is utterly indefensible and offends every principle of justice. Here are his own words: "I see a proposal made, that you should give your money in proportion as counties and boroughs already are in receipt of grants in aid. Nothing, it seems to me, could be more unjust." So spoke Mr. Goschen when introducing his budget, and we must assume that in so speaking he represented the views of the government. But the very thing that they then denounced they now propose. . . . For this amendment no other merit was claimed than that it would disarm a certain amount of opposition to the Bill. No attempt was made to justify it on any other ground whatever. And while we readily admit that a government must to a certain extent be guided by considerations of expediency, yet for a government to deliberately do what it has itself declared to be an act that offends against every principle of justice, merely because it thinks that it will thereby smooth its path a little appears to us a proceeding at once so weak and so unprincipled that it would be difficult to speak of it in terms of too great reprehension.

Of course the new arrangement cannot be a permanent one. It is avowedly a mere makeshift. Mr. Goschen need not have been so desperately cautious in his surmise, that possibly "it might be necessary to revise this matter in the future." The matter will undoubtedly have to be revised for this, if for no other reason, that even if the allocation were fair now, which no one pretends it is, it would in the ordinary course of things very soon cease to be fair. It is proposed that the probate-duty shall continue to be distributed in proportion to the share of the grants in aid, which each county has been receiving in the current year. But the claims of each county fluctuate from

¹ *Economist* newspaper, 28th July 1888.

year to year according to the amount of its expenditure upon the different objects to which imperial aid is afforded. And when the conditions which entitle to aid are thus constantly changing, a scale calculated and fixed upon a bygone state of things must of necessity become obsolete and inequitable.

But the measure has become permanent and has never been revised. The express provision made in the Act that the arrangement should only remain in force "until Parliament otherwise determine,"¹ has remained a pious hope. Invective and ridicule have been heaped on Mr. Goschen's scheme,² but they have failed to stir the government to take reconstruction in hand. The reasons are numerous. Partly the difficulty of the work, partly the inevitable disturbance to vested interests, involving the possible loss of votes, have deterred successive ministries from introducing a more equitable system. But the circumstance which, more than any other, has contributed to the long life of the arrangement of 1888 is the absence of fixed policy, which characterises the whole treatment of subventions to local taxation. Even the Royal Commission admits that grants have chiefly been given to keep rate-payers quiet, and without aiming at any object more remote than the necessity of the hour.³ Rate-payers, say the commissioners,⁴ have been regarded by the central government as "troublesome and importunate." The so-called central aid has, in fact, been given not so much to assist local administrators, as to secure peace to the authorities at Westminster. The problem of rates has been regarded by our legislators

¹ 51st and 52nd Vict. cap. 41, sect. 22.

² See, for instance, *Times*, 1st April 1901, or *Economist*, 29th June 1901.

³ Final Report, p. 16.

⁴ *Ibid.*

as mysterious and very probably insoluble. Ministers, no doubt, have sometimes thought about the subject; indeed of late we have heard much of the earnest consideration they have given to it; but their attitude has always been that taken up by Mr. Tulliver towards human affairs in general. Readers of a celebrated novel will remember how Mr. Tulliver used to say, that human affairs were "uncommon puzzling," and how habitually, when he reached this stage in his reflections, the good miller thrust his hands into his trousers pockets. Ministers, confronted with the question of rates, have ever professed the same exceptional perplexity, and in their embarrassment have had recourse to a similar expedient. They have thrust their hands into their trousers pockets. The action in private life is typical of cogitation not free from bewilderment; in public life it denotes that statesmen are what Lord Salisbury called "baffled," and by natural association it leads to the remedy of the common purse. It could not be expected that doles given in pursuance of such a policy would be developed with the care which is necessary in using an expedient so fraught with danger as is central subsidy.

The first principle of distribution to lay down is that pointed out by the writer in the *Economist*—

The claims of each local authority fluctuate from year to year according to the amount of its expenditure upon the different objects to which imperial aid is afforded. And when the conditions which entitle to aid are thus constantly changing, a scale calculated and fixed upon a bygone state of things must of necessity become obsolete and inequitable.

It is not easy to illustrate this principle by examples taken from England, because the confusion of accounts

makes comparisons unreliable, but a foreign instance may be cited. When *octroi* duties were abolished in Belgium compensation was given to local authorities by way of doles. For this purpose fixed proportions of certain national taxes were set apart, the proceeds being carried direct to an account called "Local Taxation Fund." The money in this account was distributed according to a standard considered equitable at the time. In 1885 an inquiry had to be made, and it was found that nine communes received nothing at all, while others were relieved excessively.¹ On this ground exception must be taken to the proposal of Sir E. Hamilton and Sir G. Murray that the scale of distribution should be subject to revision at the end of every ten years only.² Both general reflection and experience seem to point out as the first principle of subvention that the amount of relief should be frequently reconsidered. On the other hand, the greatest possible degree of certainty should be introduced into the subsidies. After the passing of the Agricultural Rates Act local authorities did not know the exact amount of the dole they were to receive, and "budgets" were dislocated to an extent which seriously interfered with efficient finance.

The next general principle of distribution to lay down flows from the nature of the claim which local authorities have to relief. This claim may be considered from two distinct points of view.

In the first place, it might be said that national services should be paid for by national taxation, and that, therefore, local authorities ought to be provided with funds by way of doles. Such an expedient being

¹ Reitzenstein, *op. cit.*

² Final Report, p. 128.

out of the question, on account of the danger of extravagance, it might still be claimed that the object of the central government should be to relieve its local agents not altogether, but as far as it safely can, *i.e.*, to defray a certain proportion of their expenditure. Here also we must decide that the claim breaks down on the same practical point as the first one. But while relief in proportion to expenditure, as far as safety will allow, cannot be taken as the leading principle of subvention, the demand cannot be altogether put aside. The expedients of local taxation are much less productive than those of central taxation, and every country finds itself compelled to subsidise certain services by a scale which practically is that of local expenditure. Instances of this kind of subsidy are the grants based on the salaries of certain officials, teachers, etc.; the grants in respect of the local police-force, and so forth. Doles of this kind ought to be described as wrong in principle,¹ but they are necessary in practice.

The claim for relief in proportion to expenditure cannot be accepted in general. Practical considerations compel us to take up the position that rates raised by the spending authorities themselves must be not the groundwork merely of local finance, but that, when possible, they should constitute the whole edifice. This is the second point of view from which to approach the subject, and it gives rise to a very different principle for the distribution of central aid.

¹ A distinction is drawn abroad between doles of this kind and grants given according to necessity. The word "Subvention" is confined to the latter, while subsidies in proportion to expenditure or some equivalent standard are called "Dotations." See author's article on "Local Taxation in Germany" (*Econ. Journal*, September 1901), Part iii.

Regarding rates as the proper source from which all local expenditure should be defrayed, it is the unequal distribution of wealth which is the foundation of the dole. It seems sound policy to adopt this principle, because the greatest relief will, on this method, go to the poorest areas, and these may be expected to spend the money for keeping down local taxation, rather than for incurring new and perhaps not altogether necessary expenditure.

For securing such a distribution of central aid,—namely, relief according to necessity,—it must be evident that no general criterion such as population or assessable rental can be sufficient. It is impossible to agree with the conclusions of the Royal Commission on this point. Although it is inconsistent with their arguments regarding the incidence of rates on property,¹ the majority of the commissioners, as well as the minority, have adopted the continental theory that grants should be given according to necessity for relief.² The difference between the majority and the minority is this, that the minority accepted the details of the foreign arrangement, while the majority were of opinion that apportionment according to necessity could be attained by continuing distribution on the basis of assessable rental and population. The objection to this plan is the consideration that such distribution must give every local authority a dole, and in some cases a big dole, where possibly very little relief is called for. The argument, on the other hand, against departing from present methods is, that the existing system has thoroughly established itself as one which is very easy to administer, for it

¹ See pp. 211-213.

² Final Report, p. 23.

involves nothing but the simplest form of arithmetical calculation.

It cannot for a moment be denied that to abandon the simple criteria at present in use will involve very great administrative difficulties. Against this there must be put the consideration that unless the system of distribution attains a high standard of efficiency no scheme of relief can be either equitable or economical. Any saving of trouble is dearly purchased. One may illustrate the case by the familiar instance of old age pensions. A practicable pension scheme must discriminate between various classes of applicants, and must contain provisions for checking the subtle tendency of State aid to undermine individual independence. These obstacles, in fact, have made it impossible to put forward a workable proposal. Mr. Charles Booth suggested a solution, if not of all dangers at least of all difficulties. He advocated the simple expedient of giving every one a pension. Nothing could conceivably be easier, but neither could anything be more unjust or extravagant. It is after this manner that doles are given where they are distributed according to assessable rental and similar standards. Every one condemned Mr. Booth's scheme. Mr. Chamberlain, speaking recently at Birmingham, said: "Against any proposal of this kind I have from the very first set myself. There is no Chancellor of the Exchequer, under any circumstances, who can contemplate such an expenditure." Yet successive Chancellors of the Exchequer have been found to carry these very proposals in regard to subsidies. Ease of administration is the conclusive argument on which our statesmen rely.

To reform the distribution of doles three of the commissioners, as the reader knows, have made proposals which, as has already been pointed out, are seriously inequitable, if rates are regarded as falling exclusively on real property. In that case doles must be given according to the amount of rates raised. A simple proportion sum is the only admissible solution, for the higher the rate the greater the inequity, and, therefore, the greater the necessity for relief. But looking on doles as demanded by the claim of poor local authorities to have the burden of national administration equalised; to be given extraordinary resources, if their own resources do not come up to the average,—on this supposition the new proposals are valuable. But it must be clearly understood that the graduated dole can only be defended if we deny the whole contention that the present incidence of rates on the general wealth of the country is defective, and if we reform rates as regards the contributions of individuals. A system of relief which gives little or no aid to certain districts postulates that local rates themselves should be equitable.

An objection must, however, be urged against the proposals of the three commissioners in regard to the suggestions for putting the theory of graduated relief into practice. The idea has been evolved abroad, and in foreign countries there is machinery in existence for the administration of discriminating relief to which there is no parallel in England. In a system of doles according to necessity there must be discrimination according to individual circumstances, and it is considered as axiomatic on the Continent¹ that such a task

¹ Reitzenstein.

is beyond the capacity of the central government.¹ In England all the central direction of local affairs is carried out from London. In other countries there are interposed between the local authorities and the central power various associations, which are called "Local Authorities of the Higher Order"—*départments*, *Kreise*, *Kommunalverbände*, or whatever their names may be. In France these associations are very much subordinated to the government at Paris, for they were organised under the Napoleonic Empire; in Germany they are more independent, and the members constituting them are delegates of the various local authorities within each district. The object which these "local authorities of higher order" serve is to relieve the central power of much of the work of supervision, which is necessary in all schemes of local government. One might call them Provincial Local Government Boards, organised on the same principle as we have adopted in the military districts which now relieve the War Office. A most important duty of these provincial "boards" is to distribute relief according to necessity. This is the explanation of the otherwise unintelligible detail in Mr. Goschen's measure of 1888, which placed the payments out of Local Taxation Account in the hands of County and Borough Councils. But our English counties offer no substitute for "local authorities of the higher order." The members of these councils could hardly exercise general control, and as regards their present duties, they have been pitchforked together from century to century with no definite object in view.

¹ In the early days of English poor-relief it was the justices, not Parliament, who regulated "subventions."

A reorganisation of the work of local authorities must form an important part of projects for reform, and additional weight is given to this claim when we compare the cut-and-dried scheme of doles which the commissioners propose to work from London with the infinite variety and adaptability which is obtained in other countries by decentralisation. It is interesting in this connection to note that in his memorandum prepared for the Royal Commission Professor Marshall points to an extension of the functions of associations, which he calls provinces, as a possible means of grappling with the growing complexity of local problems.¹ Professor Marshall is discussing another point, and he takes his illustration from America and Switzerland, but his conclusion is the same. He draws attention to the possibility of having between the State and the ordinary local authority an intermediate body, with wide delegated powers, so that the requirements of the various districts might receive the attention they deserve.

¹ *Mem.* p. 126.

PART II

RATES FOR DEFRAYING EXPENDITURE ON
MATTERS OF LOCAL INTEREST

CHAPTER I

THE AMALGAMATION OF RATES

THE Royal Commission condemns reform of local taxation because rating according to ability is impossible. The political economists condemn reform because rating according to ability is not only impossible but unnecessary. The arguments which support the economists in this comfortable position are contained in a theory of taxation known as the benefit theory. Generally the position may be expressed by saying that the adherents of this theory regard rates as prices paid for value received. This view of taxes has long ago been discarded in the sphere of national finance, but it has been resuscitated for the purposes of local rating. To be able to explain the problems of decentralised taxation by the benefit theory exercises a great fascination over many minds, for a financial system in which payments are distributed according to benefit is demonstrably ideal. Payments for value received exclude the possibility of inequity. Nothing can be more reasonable than that every man should make a pecuniary return in exact proportion to the benefit he receives. It is true political economists do not maintain that every local

rate without exception confers measurable benefit on the rate-payer, but they consider the cases of payment in return for value to be so vastly preponderating as to justify them in warning off those who with impious hands would presume to tinker at a system which, if not quite ideal, is still as ideal as any institution can well be in this imperfect world. The benefit theory is applied in two forms, which depend on whether its adherents consider all rates to be paid by owners, or whether they hold that beneficial rates remain with the tenant.

The views of those who believe that rates fall exclusively on owners are expressed by Mr. Cannan in a very interesting series of lectures which deal with the history of local rates.¹ Mr. Cannan accepts the traditional view of the judicial interpretation of the Act of Elizabeth, namely, that personalty has been exempted, and in his concluding lecture he reviews the general equity of the existing system, summarising as follows:²—"Local taxation according to ability is impossible. . . . This wild attempt was never made in England. What was attempted was to rate the sources of wealth *visible* in the parish. By this plan, if effectually carried out, a man's income would often be cut up between several parishes, and naturally a great deal would be lost in the process. It is not easy for assessors to discover the amount of movable property in their district. . . . Consequently rates intended to be assessed according to the ability of the inhabitants ended, as local income-taxes always do end, in becoming rates on fixed property only. But it happens that the nearest approximation to rating

¹ *History of Local Rates in England.*

² P. 132.

according to ability, and the nearest approximation to rating according to benefit, are one and the same thing —namely, the rating of persons in respect of the fixed property in the district.” Mr. Cannan then points out that local rates fall entirely on the owners of real property and asserts, without troubling about proof,—that these owners are also the people who benefit by local outlay. It would, no doubt, be desirable under these circumstances to levy all rates directly on owners, but Mr. Cannan considers a legal power to transfer rates to be unnecessary. “It can make no difference whether rates are deductible from rent or not. There may be here and there persons who will pay as much for a rate-free house or farm as for the same house or farm subject to a rate of 5s. in the pound, but such persons are fortunately of a somewhat exceptional mental constitution. We are not ‘mostly fools.’ Who will stand up and confess that he took No. 76 — Street at £100 a year and subject to £20 rates, when an exactly similar house next door, but in another parish, was to let at £100 and only £12 rates?”¹ Having thus conclusively established that owners bear all rates by the use of a single brilliant example typical of the conditions prevailing in actual life, Mr. Cannan applies the benefit theory without fear of contradiction. Local taxation is pronounced to be a system of assessment according to value received. “This is the secret of its strength which has hitherto enabled it to resist all attacks, for the portion of local taxation which is raised for purposes to which the principle of benefit is applicable has long been rapidly increasing in pro-

¹ P. 135.

portion to that to which the principle of ability is applicable."

The scientific economists like Professor Sidgwick, Professor Marshall, and Professor Edgeworth, maintain that beneficial rates are paid exclusively by the tenant. These scientists point out that when rates are collected from a tenant, he will be willing to bear the payment of all rates which represent value received from local services. The scientific doctrine of "shifting" applies, therefore to *onerous* rates only, while *beneficial* rates will "stick where they fall" because a *quid pro quo* is given in return for them. The reader will at once recognise the logic of this position. If a tenant takes a house with a garden, he is willing to pay for the addition to the pleasures of his abode; similarly he will be prepared to pay for paved streets, drains, etc. Whether the scientific theory can be applied so as to work out equitably in the conditions of actual life is another matter, which will be discussed in the sequel, but as a doctrine of political economy it is unassailable. Regarding the extent of *onerous* rates, scientists take up the same position as Mr. Cannan—namely, that the sum of these rates is so insignificant that the extreme difficulties involved in reform need not be faced. Professor Edgeworth's opinion may be quoted: "Though in general theoretically the burden of taxation, in the case where the benefit sought by the community as a whole cannot be allocated among the individual members, ought to be distributed according to the same law of 'sacrifice,' or 'ability' in a subordinate as in a sovereign community, yet in fact in our municipalities there does not occur much onerous taxation of this sort. What is called

onerous local taxation is usually that which does not redound to the advantage of the rate-payers as a body directly, or otherwise than as they are members of the nation—for instance, as much of the poor-rates as does not conduce to the special benefit of the municipality.”¹

The present writer wishes to contest the benefit theory as applied by scientific economists² and to suggest the expediency of reviving a method of rating which was practised in England long ago; moreover, a method which is in harmony with the doctrines established by modern financiers in Germany. But it is obviously necessary to deal first with the important historical fact that in the course of years these methods have been abandoned. All rates are now levied from tenants by a rough income-tax, while in the early days of the development of local taxation a distinction used to be made between outlay of general interest and outlay undertaken for the improvement of local property. Before a reformer can claim that a return should be made to a discarded system, he must inquire into the causes which have led to the adoption of a uniform rate, and prove that differentiation in local taxation is not a thing condemned by historical experience.

The earliest instance of a special charge imposed on property occurs in the case of one of the very oldest of our taxes, the sewer-rate.³ Like other local imposts, this tax is of common law origin and was firmly established before any statutes were passed in

¹ *Econ. Journal*, vol. x. p. 182.

² The untenable nature of Mr. Cannan's position does not require to be further demonstrated.

³ “Poor Law Commissioners' Report on Local Taxation,” 1843.

regard to it. Its purpose was to provide for the expenses of embankments and other defences by the sea or marshy ground, and for constructing ditches and gutters and other improvements. In two respects it differed from ordinary rates. The districts on which it was imposed had no legal relation to the civil or ecclesiastical divisions of the country, but were determined by commissioners from case to case according to necessity. The incidence, in the second place, was alone on the property benefited and in proportion to its "quantity" or acreage. Movable property had no liability, and in the various districts any mountainous or high lands which could not be overflowed, or surrounded by waters, and could not therefore benefit in the expenditure of the rate, were exempt.¹

The sewer-rate received statutory regulation in 1427 by the 6 Henry VI. c. 4, and it is highly instructive to compare the precision of the financial clauses of that statute with the vagueness of the corresponding sections in the Act of 1601. In the case of the poor-rate the draftsman had not the slightest intention to define the liability of each contributor. The sewer-rate, on the other hand, was known to be a burden on land alone, and as such it is defined in the clearest of terms. The passage in the Act is as follows:—

To inquire by the oath as well of knights as other good and lawful men of the said county by whom the truth of the matter may be best known, by whose default such damages have there happened, and who doth hold lands and tenements, or hath any common pasture or fishing in these parts, or else in any wise have or may have the defence, profit, and safe-guard, as well as

¹ "Poor Law Commissioners' Report on Local Taxation," 1843.

in peril nigh as from the same far off, by the said walls, ditches, gutters, sewers, bridges, causeys and wears, and also hurt or commodity by the same trenches, and there to distrain all them for the quantity of their lands and tenements, either by the number of acres or by their plough lands for the rate of the portion of their tenure, or for the quantity of their common pasture or fishing, together with the bailiffs of liberties and other places of the counties and places aforesaid.

In some early cases of urban improvements the owner was compelled to undertake the outlay at his private expense. Thus an Act relating to Cambridge ordered that "all persons which have any houses, lands, gardens, or other grounds in the town of Cambridge adjoining upon any highway, street, or lane in his own right, or in the right of his wife . . . shall cause the same to be paved with paving stone into the middle of the same ways and in length as their grounds shall extend."¹ In most cases the local authority undertook the work. For the repair of Greenwich marshes it was provided that "every person which shall be owner of Combe marishes in the parish of East Greenwich, in the county of Kent, shall be contributory towards the reparation of the said marishes from time to time after the rate of the acre, as other owners be charged."² An interesting case of an owner's rate occurs in connection with Scarborough Pier. Officers were appointed to take charge of the pier, "which shall receive yearly from every owner of any messuages, lands, tenements, and hereditaments or rents within the liberties of Scarborough the fifth part of the yearly value of the same towards the reparation of said pier."³

¹ 35 Henry VIII. c. 15.

² 37 Henry VIII. c. 11.

³ 37 Henry VIII. c. 14.

Numerous other instances of this kind of assessment can be extracted from any old volume of the Statutes at Large. It remains to consider why this method of charge was abandoned. Various Acts regulating the sewer-rate remained in force till recent times, but in 1843 the Poor Law Commissioners reported that the statutory directions for its imposition "are rarely, if ever, regarded in practice."¹ "Great as are the differences in law, they are all neglected more or less in practice. We believe it may be generally affirmed that *the whole of our local taxation is imposed either by law, or by usages regardless of the law on the same basis as the poor-rate*" (Commissioners' italics).² The report of 1843 devotes considerable space to tracing the reasons which led to the adoption of this uniform basis in spite of the fact that the method of imposing some of these old taxes was "remarkably well adjusted to the purposes of the rate."

The first reason for the decay of differentiated rating was the practice of Parliament to impose a special rate for each new purpose of expenditure which might arise, thus bringing the number of rates to about 200.³ Immense trouble and cost were incurred in the imposition of rates individually quite inconsiderable in amount, and the administrative complexity was heightened by the fact that for a long time assessment had to take place weekly.⁴ It was only natural that local authorities should use the great freedom from control which they enjoyed for simplifying their labours both by reducing the number of rates and by

¹ Report, p. 11.

² *Ibid.* p. 25.

³ These are general rates only. The Poor Law Commissioners do not deal with rates under private Acts; also not with rates levied under local customs.

⁴ Report, p. 41.

extending the periods of assessment. In 1705, for instance, the Courts decided that a quarterly assessment was illegal, but that a monthly assessment might be permitted. In 1771 quarterly assessments were allowed, and in 1797 the period was extended to half a year.¹ The small amount of each separate rate must frequently have been ridiculous. In one case the contribution of a whole parish was fixed "so that no parish shall be rated above the sum of sixpence, nor under the sum of one halfpenny weekly to be paid, and so that the total sum of each taxation of the parishes in the county amount not above the sum of twopence for every parish within the county."² In another case the contribution for the whole county was to be "twenty shillings at the least yearly, which sum the churchwardens of every parish shall truly collect and pay over." The 14 Eliz. c. 5 directed an assessment to be made "so as no parish be rated above sixpence or eightpence weekly," the churchwardens being required to levy the same every Sunday. Such rates could only amount to fractional parts of farthings on each person liable thereto, and as the legislature did not provide the coinage necessary for carrying out its directions, it was very natural that the edicts were disregarded.

A measure of consolidation was passed in 1739 which authorised the imposition of a general county-rate. The preamble of this Act stated: "The manner and methods prescribed by the said several Acts for collecting some of the said rates are impracticable, the sums charged on each parish in the respective divisions being so small that they do not by an equal pound-rate

¹ Report, *loc. cit.*

² 43 Eliz. c. 2, § 12.

amount to more than a fractional part of a farthing in the pound on the several parishes thereto ratable; and if possible to have been rated, the expense of assessing and collecting the same would have amounted to more than the sum rated." After this date Parliament was more careful not to create a special rate for each purpose as it arose, but every now and again a new rate would be imposed for some quite insignificant purpose.¹ The Justices of the Peace, however, never regarded the statutes, but habitually paid the expense out of some other rate. Even the lighting- and watching-rate became amalgamated with the poor-rate, although the former provided that occupiers of buildings were to be rated at an amount three times greater than the occupiers of land.² The militia-rate also lost its distinctive character, although it gave exemptions to particular persons.³ Another consolidation was carried out in 1815, but in spite of this fact the commissioners reported in 1843 that there still remained fifteen separate and distinct rates which might be levied in any one parish or township. "This number, however, is greatly reduced by various practices which, though unlawful, are more convenient than the lawful practice would be."⁴ In the arrangement of the purposes of expenditure over various rates no principle was followed. Even the purposes to which a single rate was applicable were often of the most dissimilar description; other purposes were very slightly distinguishable even when provided for by different rates. Constables' expenses, for instance, were payable out of six different rates, three of which might co-exist in the same place.⁵ Men

¹ Report, p. 9 (instances quoted).

³ *Ibid.* p. 15.

⁴ *Ibid.* p. 14.

² *Ibid.* p. 14.

⁵ *Ibid.* p. 14.

of common sense, since they could detect neither rhyme nor reason in all these different rates, adopted the simple expedient of disregarding the enactments.

Another cause for the amalgamations with the poor-rate lay in the comparative certainty which judicial decisions had given to this tax. Definite officers, also, existed for making the assessment and collections, and protection of the funds was provided by making these officers responsible.¹ Above all there were powers to enforce the poor-rate, while some other taxes were so inadequately provided for that they could not be collected at all, or only with the assistance of cumbersome machinery.² The parish as the area of assessment was further much more convenient than the Hundred and the County, and still more so than the areas of the sewer-rate.³ It therefore came about that the poor-rate was made use of "without much regard to whether the law did or did not authorise the application."⁴

After examining the causes which have led to the decay of differentiated rating, there can be little hesitation in determining that they are not of a nature which proves that historical development and the practical experience of centuries have for all time proclaimed against attempts to make a distinction between the various rates levied by local authorities. The difficulty encountered was solely administrative complexity, and not the insuperable obstacles which arise when financial principles are violated. In refraining from enumerating movables, local authorities acted on lines which are suggested by theory and expedience alike; in doing all in their power to

¹ Report, p. 13.

³ *Ibid.* p. 13.

² *Ibid.* p. 15.

⁴ *Ibid.* p. 14.

confine local taxation to one kind of rate, they merely tried to make things easy for themselves. There was much under the circumstances to be said in justification of the course. The full requirements of Parliament were so extravagant as to justify their rejection. But this is no reason why, with greater care, a part of the discarded complexities should not be re-introduced. It merely shows that the old mistakes must not be repeated—viz. to overload the machine, and to offend against common sense.¹

This conclusion receives support when we consider the reasons which led the Poor Law Commissioners in 1843 to recommend the government to recognise the various illegal practices and to give statutory authority for placing all rates on the basis which *de facto* local authorities adopted. The commissioners' only aim was simplicity in administration. They came fresh from the study of the enormities demanded by a long succession of governments, and were full of admiration for the common sense which had ignored these ordinances. Uniformity and ease were the objects aimed at in 1843. Although admitting the peculiar incidence of the sewer-rate to be "singularly well adapted to the purposes of the rate," the reporters recommended its abolition. They disregarded justice, and contented themselves with practices which, though illegal, were "more convenient than the law."

In weighing the binding character of such a

¹ Regarding the danger of demanding anything impracticable from decentralised authorities, the best modern instance is perhaps the legal provision that an allowance for repairs, insurance, etc., should be deducted from ratable value. To carry the law into effect would involve endless trouble, and the statute therefore remains a dead letter.

recommendation, which comes from three eminent authorities like Sir G. Cornwall Lewis, afterwards Chancellor of the Exchequer, Sir G. Nicholls, author of the celebrated *History of the Poor Law*, and Sir E. W. Head, afterwards Governor-General of Canada, it is necessary to bear in mind that local taxation amounted in their day to eight millions,¹ while it now reaches forty millions. This phenomenal expansion entirely changes the situation. It may be all very well—it may even be better to adopt rough and ready but simple methods for raising a small sum of taxation. Complete justice cannot be secured by any scheme, and it is a good principle of action that the mechanism for imposing a tax must not be out of proportion to the revenue required. But when the sum grows, each individual injustice becomes accentuated. The balance of advantage lies no longer in permitting injustice in order to save all trouble. England is now a great industrial community, and we should hesitate before we sanction methods more primitive than those prevailing in the villages of our forefathers.

¹ Giffen, *Essays in Finance* (1st Series), p. 246.

CHAPTER II

THE METHODS FOR DEFRAYING EXPENDITURE ON MATTERS OF LOCAL INTEREST

THE principles which should regulate the imposition of local rates for national services have been fully discussed. The expenditure under these heads is incurred at the dictation of the central power, the interests involved are those of the community at large, and the contributions, therefore, should be apportioned according to the ability of each individual on the precedent of national taxation. The theory of national taxation according to ability used not to be unchallenged. There were once writers who maintained that the expense of government should be defrayed by people in proportion to the value they receive from public services. The position was this, that just as in private life you pay a tradesman for the goods he has supplied to you, so you ought to pay the State for the services it has rendered to you. Mill ridiculed such views of government,¹ but as opinions regarding what is ridiculous must always vary, it is more convincing to lay stress on the practical impossibility of carrying out the benefit theory of taxation.

¹ Mill, *Principles of Political Economy*, Book v. chap. ii. sec. 2.

Large benefits are, no doubt, conferred by national taxation, but no one can determine how the quantity of benefit accruing to each individual should be measured. One of the greatest advantages bestowed by public expenditure is, for instance, the protection afforded to life and liberty. Theoretically this benefit is equal to all, and the benefit theory would consequently lead to a poll-tax.¹ Equally anomalous would be the results, if an attempt were made to measure contributions according to the protection afforded to property. There would have to be a scale for destructible property, for ploughed fields, and for the bonds of foreign countries. It might also be argued that it costs proportionately less to protect £100,000 than to protect £100, and that taxation should be degressive.² With universal assent the idea of taxing according to benefit is abandoned in national finance except in the case of a few fees and similar charges demanded, for instance, at law courts. The same reasoning applies to local rates of a national character. No one can estimate the benefit accruing to each rate-payer from outlay on poor-relief, education, police, etc. The cost must, therefore, be defrayed on the principle of ability. This proposition is universally admitted, for the experts only contend, as was pointed out, that local rates of an onerous character are too insignificant to trouble about. It may be observed that the Royal Commission does not accept the evidence of its experts as to the extent of national or onerous rates. The commissioners take up the position, which the present writer has also adopted, of regarding the following as

¹ Plehn, *Introduction to Public Finance* (New York, 1896), p. 111.

² Mill, *loc. cit.*

falling into the national class : poor-rates, school-rates, road-rates, rates for purposes of general administration.¹

After leaving national rates, there remains that large and important part of local taxation which experts and all agree is not national in its character. In the case of many services a local body is not the mere agent of the central power, but acts as a principal. In regard to matters like the cleaning and lighting of streets, the removal of nuisances, the laying out of parks, etc., the decentralised authority is responsible not to a department, or a government inspector,² but only to its constituents. The interest in such matters is purely local ; each area is, therefore, allowed to do as it likes. In discussing the principles which should regulate taxation for defraying this expenditure of purely local interest, the question arises whether the conclusion arrived at in regard to taxation for matters of national interest applies here also, or whether it does not. It does not signify for purposes of general discussion whether we take the above view as to the extent of services of local interest, or whether we adopt the position of the economists and regard almost all local taxation as being "local" in the narrower sense. The point to settle is the basis for apportioning contributions. If the return accrues to the whole country we tax according to ability ; if the return accrues to a local area, should we tax according to ability, or according to benefit ?

With unanimity the experts consulted by the Royal Commission have expressed the opinion that local rates (local in the narrow sense) not only can be assessed by

¹ Final Report, p. 12.

² Von Reitzenstein, *op. cit.*

the measure of benefit: they have gone further, and maintained that a rent-tax is already a basis of assessment according to benefit, and secures the desired apportionment. It is exceedingly important to inquire into this problem, for if the views of the experts are correct, then it follows that no reform of local rates (local in narrow sense) is necessary. It must be perfectly obvious that if the benefit of local expenditure accrues in proportion to rent paid, rate-payers' grievances are out of the question. Rates, in that case, are payments for value received, and local taxation, as it exists, is ideal. No one can claim to be supplied at the expense of his neighbours with benefits which can be measured, whether the benefit takes the shape of butter and cheese, or local service. The question is just this: Do the benefits of local expenditure accrue to persons in proportion to the rent they pay? If they do, then there need no more be talk about the reform of "beneficial" rates than of the price of butter. If they do not—if rent does not measure benefit—then the case is different.

The question, Do the benefits of local expenditure accrue to persons in proportion to their rent? was answered by the experts with a definite "yes." In discussing the incidence of rates it was held that the imposition of an "onerous" rate would reduce the demand for house accommodation, the reason being that rate-payers do not get a measurable *quid pro quo* since the benefit from national expenditure accrues to the country at large and not to the local area. But it was held that the effect of the rate would be different if the tax were not "onerous." Such rates, instead of reducing demand, add to the value of the house, and

make the rate-payer willing to pay the rate in addition to his rent; in Professor Sidgwick's words: "The occupier simply pays for value received."¹ "It is time to restore the fact," says Professor Edgeworth, "that all rates are not onerous; the better opinion is that those rates which are truly onerous are less in amount and vary less from place to place than is commonly supposed. But in so far as imposts are beneficial, the demand of the occupier is increased to the full extent of the impost."² Professor Sidgwick elaborates the position in the same manner: "I say in so far as it" (the rate) "is onerous, because in so far as its proceeds are expended in increasing the utility and value of the house, the payment need not be regarded as a burden at all."³ As regards the accuracy of rent paid as a measure of benefit, doubts arose in Professor Sidgwick's mind only as to the case of the poor, because "rent forms a larger portion of their expenditure."⁴ The following reassuring result is, however, reached:—

The poor man derives advantages either proportional to his payments, or *in a higher ratio*, from an important part of the expenditure in question, *e.g.* sanitation, public lighting, burial grounds, open spaces. Further, in considering the matter for practical purposes, we have to take into account the benefits accruing to the poor from local taxation, which is merely onerous to the rich.⁵

Other experts take up the same position.⁶ From their views it would follow that rates for other than national purposes may be left as they are. Being not

¹ *Mem.* p. 107.

³ *Mem.* p. 104.

⁵ *Ibid.* p. 110.

² *Econ. Journal*, vol. x. p. 342.

⁴ *Ibid.* p. 109.

⁶ *Econ. Journal*, vol. x. p. 342.

taxes in the ordinary sense, but payments in proportion to benefit, they must of necessity be equitable. This portion of the expert evidence the Royal Commission accepts, viz. (a) that the benefit of purely local expenditure can be measured, and (b) that rent is the measure of this benefit.

The present writer wishes to call in question the theory that rating for purposes of local interest is ideal as it exists. To do so is to go directly contrary to the teaching of the established authorities, and the view can only be put forward very tentatively. Professor Sidgwick was renowned for the subtlety of his reasoning, and Professor Edgeworth is one of the most accurate of the English economists of first rank. But the opposite position cannot be given up without a struggle.¹ The leading purpose of this treatise is to secure relief from unduly heavy taxation, to those classes of occupiers who have small or moderate incomes, and if local rates proper ("beneficial" rates, as they are called) are not mere cases of payment for service received, then they are quite as much in need of reconstruction as "national" rates. In support of this view it is possible to refer to the German economist Wagner. Professor Edgeworth refers² to a pamphlet by Wagner which the present writer procured, and found to bear out the idea he had formed that benefit is not measured by rent.³ On the other hand, Professor Edgeworth's knowledge of Wagner's views, while he himself holds the opposite theory, weakens the support obtained from the German authority. Against

¹ The present writer submitted his views to a political economist of high standing, and was told that they were utterly untenable.

² *Econ. Journal*, vol. x. p. 182 (note 3).

³ *Die Communalsteuerfrage*, 1878 (Winter, Leipzig).

this again there may be set certain admissions by Professor Edgeworth himself. Although in his treatment of incidence he assumes that rent measures benefit, and though in his criticism of projects for reform¹ he make the same assumption, in this introductory discussion² the Professor admits that the scope of the benefit theory is not—theoretically at least—congruent with the extent of “beneficial” rating. The question is, therefore, in every sense an open one, and the reader must judge for himself, which he can easily do, for the facts in dispute are perfectly simple.

The theory that local rates represent payments for benefit received, and are thus of necessity equitable, is founded on the view that the community inhabiting a local area is a kind of co-operative association appointing a managing committee to perform certain work which can be done more cheaply and efficiently by co-operation than by individual enterprise. Professor Marshall, therefore, defines the basis of local taxation as the “joint-stock principle.”³ It follows

¹ *Econ. Journ.* vol. x. p. 487.

² *Ibid.* pp. 181 and 182. Professor Edgeworth divides rates into three classes—(1) Onerous in the primary sense; (2) onerous in a secondary sense; (3) non-onerous. His general position is this: Class (1) “does not redound to the advantage of the rate-payers as a body, otherwise than as they are members of the nation.” No provision can be made for this class, because of the impossibility of local taxation according to ability; no provision requires to be made, because of the comparatively small amount of this taxation. Class (3) benefits individuals in proportion to the rent they pay, and thus calls for no changes. Class (2) is the group regarding which the admission seems to be made that a rate may be beneficial to an area and not to an individual, so that “questions of equity must be considered.” Unfortunately the distinction is not again referred to in the subsequent treatment of the problem, nor is the important question decided: What are the respective extents of classes (2) and (3)?

³ *Mem.* p. 113.

quite easily from this theory of local government that the payments demanded are prices charged for work done, and that an inquiry into the equity of the contribution is as unnecessary as an inquiry into the equity of the price of butter. The rate, indeed, becomes a "fee" instead of a "tax."¹

It seems possible to assail the correctness of this bargaining theory of local government, and therefore of local rates. The question may be put: Are the conditions which produce prices present in local taxation? If we reflect, it surely becomes clear that the "demand-note" rendered to us by the managing committee of the alleged co-operative association in our local district is made up on very different principles from our tradesmen's bills. But unless there is a parallel between individual bargaining and local government, "beneficial" rates cannot be described as prices, and we have no assurance that they are equitable. It is true, one may say that there is a demand for street-cleaning, and that the local authority has contracted to supply the demand. But that is something quite different from jumping at the further conclusion that the contributions from rate-payers are fixed on commercial principles; that a cleansing-rate is a case of demand and supply, and therefore of price. There are several respects in which our dealings with our local authority differ from those with our tradesmen.

There is, in the first place, compulsion to take delivery of local services. No one asks us whether we will have our housemaid clean the street or the scavenger; nor whether we will carry a lantern at night instead of being lit on our way by electricity.

¹ *Mem.* p. 141.

We cannot reduce our demand by walking home in the dark; our only remedy, if street-lighting is too expensive, is to go into a smaller house—to reduce our demand for house accommodation. If we are dissatisfied with the service, we cannot express our wishes except by elaborate combined action, or by that last resource of the impotent—writing to the newspapers.

Secondly, the quantity of local service supplied cannot be measured. Gas may be supplied by meter, and in the peculiar conditions of some towns (*e.g.* Berlin) it may be possible to treat water in the same way, but generally the quantity is arrived at in the most arbitrary fashion. We may never go out of our houses after dark, and yet we pay for the street lamps which blaze away all night. We may indulge in a bath twice a day or once a month without influencing our water-rate by as much as a halfpenny.

There is no parallel to private bargaining here. The conditions which produce prices are absent. There is, therefore, no reason why “beneficial” rates should be assumed to be equitable. If we all helped ourselves to trousers as we wanted them out of a municipal store, and at the end of the year paid a round sum measured by house-rent, such a rate would be an exact parallel to local taxation, but never to the market, and therefore equitable price of our breeches. No doubt the expense of the trouser store would measure the benefit of the arrangement to the locality, so that the service might be called “beneficial” to the local area, which as a whole would accordingly pay for value received. But there seems to be a distinct looseness in the logic of the argument that the trouser-rate would be a payment for value received

to each separate individual within the area of benefit.

For this reason it is desirable to raise the question whether the experts are right in assuming that local rates are assessed according to benefit. When the proposition is put to them in its theoretical form: Can "beneficial" rates be assessed by the measure of value received? two of the experts, at any rate, fight shy of adopting such a position.¹ But in its practical shape the experts unhesitatingly accept the benefit theory. They declare: Rate-payers pay for value received, and they use this proposition as the basis of their reasoning regarding incidence, and regarding proposals for reform.

The more we look into the question the less tenable seems the position that "beneficial" rates, in their present shape, must be equitable because a local authority conducts business on the "joint-stock principle." There unquestionably is some distinction between national services and local services. Any one can appreciate that there is a difference between national defence and street-cleaning. But after we have used this distinction for determining that the one service falls into the Sphere of Administration of the central, and the other into the Sphere of Administration of the local power, it seems that we come to a stop. The criterion "national or local" is useful for deciding who should manage the public service; it is useful for deciding the boundaries of the area within which payments should be levied. But having fixed the sphere of charge the criterion gives no assistance

¹ Edgeworth, *loc. cit.* p. 181; Bastable, *Public Finance*, Book iii. chap. vi. § 5.

as to how the contributions from individuals should be determined. Certainly it does not enable us to lay down the rule that if the return accrues to the country, the service should be paid for on the principle of ability; that if the return accrues to a local area the service is paid for on the principle of benefit.

What is the benefit people get from street-cleaning? Compare the case of a well-dressed woman who picks her way in dainty shoes and a sweeping "costume," and that of her humble sister who ploughs along in hobnailed boots and a "walking skirt." How much benefit do they each of them get? Equal benefit? Or does one get all the benefit and the other none? What ratio is it? No standard of apportionment can be devised which will enable us to say that their respective husbands pay for the value they receive in the way of street-cleaning, and that their contributions must *ipso facto* be equitable. The existing method is, historically, to charge by a rough guess at income, which makes the husband of the lady in the hobnailers pay much more proportionately than the other. One cannot accuse the authors of the legend of the co-operative association of having fallen into the vulgar error of interpreting a situation one does not understand by constructing an explanation out of one's inner consciousness, but it does seem that their conviction regarding the impossibility of local taxation according to ability has led them to be too uncritical towards the theory of taxation according to benefit.

The position taken up by the Royal Commission seems untenable also in regard to "beneficial" rates. Whether we take the majority report, or the minority

report, or the report for taxing site-values, in each we meet the assumption that rates other than "national" rates are a case of price paid for service rendered. In treating the question of exempting or partially relieving certain rate-payers the majority reporters, as the reader will remember, pronounced in favour of full assessment for onerous rates.¹ In regard to "non-onerous" rates they were, if possible, more emphatic: "Above all, no exemption should be allowed from such rates" —the reason being, of course, that the rate is a price for value received.²

The minority reporters, Sir E. Hamilton and Sir G. Murray, express the same opinion. "Non-onerous" expenditure, they say, should continue to be met by present rates, because the system secures the proper apportionment.³ The minority reporters make their position very clear. They declare that if poor-, school-, etc., rates could be eliminated from local finance all difficulties would vanish. If we had to deal with nothing but cleansing, lighting, and improvement rates, "the problem of local taxation would be solved;"⁴ better perhaps: apart from poor-, school-, etc., rates the problem is solved. The report on the taxation of site-values is based on the same assumption. The rate-payer is pronounced to "bear the burden and enjoy the benefit which exactly cancel each other."⁵ The sweet simplicity of the "joint-stock principle" commended itself to the Royal Commission. It has such an obvious connection with limited responsibility.

¹ Farmers and parsons excepted.

² Final Report, p. 50.

³ Final Report, p. 124. Any objections which may exist are to be removed by rating sites.

⁴ *Ibid.* p. 124.

⁵ *Ibid.* p. 156.

Nothing could be simpler than to recommend that "non-onerous" rates be left as they are. But the only portion of expert evidence the Commission deigned to accept is based not on fact, but on allegory.

The question how to raise taxation for public outlay within a local area seems quite as difficult as in the case of a national area. By the expenditure of public taxes vast benefits are conferred, but the benefit cannot be brought home to individuals so as to form the basis for general contribution. As Professor Neumann says: "We pay taxes not because it is our interest, but because it is our duty."¹ Only in very few cases can payments be exacted for national service rendered. It is impossible to say that the benefits from local expenditure ought to be treated in a different manner. A local area is not a co-operative combination—it is rather an *imperium in imperio*; it is not an industrial association, but a decentralised government, and government is not shop-keeping—at least the theory of government is not. The present writer ventures to suggest that the terms "national" and "beneficial" should be discarded as misleading. It is exceedingly difficult to coin a new phrase. From certain points of view every brief expression must be false. But would a division of the functions of local authorities into obligatory functions and optional functions not be truer to the facts of the case? The term "national" creates the belief that such functions are not beneficial; indeed national and onerous are used as synonymous. "Beneficial," on the other hand, gives rise to the opinion that functions of this kind are something apart; a verbal dis-

¹ *Progressive Einkommen Steuer*, p. 58.

inction is accepted as evidence of a difference in nature between central and local functions and central and local taxation. In reality no fundamental difference exists. Certain wants of the community are supplied by private enterprise, others by public enterprise.¹ Public enterprise is regulated by (a) national policy, (b) local policy. All this enterprise is beneficial. A part of the public programme dictated by national policy (*e.g.* education) is delegated to decentralised authorities. The performance of the work is obligatory to these authorities. In contradistinction enterprises regulated by local policy may be described as optional. The local governments need not take them up unless they wish to; they can also perform the work on whatever scale seems good to them. But in these optional functions—once it has been decided to undertake them—local authorities perform services to which rate-payers contribute because the wishes of the majority compel them to. Local powers of taxation are just as drastic in their nature as those of the central government. Rates are, therefore, like all taxes, what has been called “forced exchange” and not “free exchange.”² The service rendered is regulated by the compelling power of what, for want of a better phrase, we describe by the old-fashioned word “government.” Under such circumstances “beneficial” rates must be distributed on the same principle as “beneficial” taxes.

It is, however, an admitted principle of financial equity that if special services are rendered to individuals, it is these people who should defray the

¹ Wagner, *Communalsteuerfrage*.

² *Quarterly Review*, January 1902, “Local Taxation.”

cost and not the community in general.¹ Taxation is only justified if the benefits from the expenditure are universal, as in the case of national defence, or if national policy demands that special payments should not be required, as in the case of education. In the affairs of a nation very few instances of the complication between "taxes" and "fees" occur. In the transactions of a local authority the cases of special service rendered are more frequent and, owing to the confined area, more capable of being followed up.² The community has a claim founded on general equity that taxation should be kept within as narrow limits as possible—that when chances occur of avoiding taxation they should not be neglected. This claim has special weight in English local finance, because indirect assessment cannot secure proportionate contributions from the wealthy.

A theory of this kind for the distribution of the cost of the "optional" functions of local authorities is a very different thing from the benefit theory of taxation, according to which every contribution whatever is described as a payment in proportion to value received. The nature of distinction will appear in the subsequent discussion.

¹ Sidgwick, *Elements of Politics*, chap. xi. § 4.

² Wagner, *Communalsteuerfrage*.

CHAPTER III

PAYMENTS FOUNDED ON VALUE RECEIVED

THE allocation of the expense of government among the subjects of the ruling body, to briefly summarise the foregoing, raises peculiar difficulties owing to the fact that public enterprise is based not on "free exchange," but on "forced exchange." It becomes necessary in the case of "forced exchange" to form a theory for guidance on two points: firstly, *who* should pay; secondly, *how much* should each person pay; and theories on such a subject contain unavoidable elements of arbitrariness. The "benefit theory," as applied by political economists, seeks to explain away these difficulties by attributing to the methods by which the enterprise of local authorities is conducted certain characteristics peculiar to the methods of "free exchange." The arbitrary element is thereby removed and the equity of allocation calls for no more consideration than the terms of any other bargain freely and legally contracted. It is, however, extremely doubtful whether the arbitrary element can be removed from a system of "forced exchange." We have seen that rates are not assessed according to benefit, but according to income. Indeed we may

apply to local finance the same principle which is generally admitted to hold in regard to national finance—namely, that no tax can be assessed according to benefit.

But although a complete solution of the problem of allocation cannot be obtained from the conception of benefit, a part of the difficulty may be met in this manner. It is almost universally contended that in some of those departments of public service which are administered by local authorities there is an absence of that solidarity of interest which characterises the position of tax-payers towards the enterprises of the State. Instead of our being able to say that every one is benefited, we find cases where direct benefit of a special nature is conferred on particular individuals. If this is admitted—and it is usually admitted—then the idea of benefit may be allowed to determine the first point of difficulty in the local system of “forced exchange”—namely: who should pay. But as regards the second question,—how much should each person pay,—this cannot be answered by reference to benefit. The estimation of benefit is a purely subjective affair which under “free exchange” each person settles for himself, regulating his expenditure on various objects accordingly. Under “forced exchange,” on the other hand, the question, how much should each person pay, must be settled by the governing body. We may make every effort to conform to principles of equity, but any calculation of benefit, such as would enable us to pronounce the payments to be necessarily ideal, is out of the question. All we can do is to make the assumption—which becomes a fundamental assumption—that a valuable service has been rendered,

and, founding on this position, we may endeavour to relieve the general community of the particular expense by charging the cost of the service on those interested. How far the idea of neglecting benefit, except for the purpose of making a fundamental assumption and then confining one's self to a recovery of cost according to some more or less arbitrary standard, may be a useful contribution to the discussion remains to be seen. It is put forward purely tentatively and in acknowledged opposition to the established authorities. It is also not a position in support of which the opinion of foreign economists can be cited. But a study of the reforms in Prussia seems to show that this was the idea which Miquel had in his mind when he framed his measures. Methods of rating formerly used in England may also be referred to as precedents.

PAYMENTS FOR VALUE RECEIVED BY PARTICULAR INDIVIDUALS ¹

The first case of payment founded on special value received occurs in connection with individuals. It is, for instance, the custom in this country to permit local authorities to carry on enterprises under the designation of "Trading Undertakings," which are systematically worked at a loss. The general statistics are, like all local statistics, exceedingly imperfect and next to useless, but a special return on the subject was some time ago called for by Sir Henry Fowler,

¹ This case is suggested by the Prussian Act of Reform (§§ 3 and 4).

and this paper¹ contains much more accurate information than the annual Board of Trade Returns. From the special compilation we learn that there are five departments of municipal trading which, over all, make profits, or at least clear expenses: water, gas, and electric-light supply, tramways, and markets. All other departments are worked at a loss: baths and wash-houses, cemeteries, working-class dwellings, and piers and quays. The average annual loss on these undertakings in municipal boroughs alone is £150,000. In addition to the latter undertakings there are others, not given in the return, like slaughter-houses, allotments, harbours, etc., which, as a rule, make a loss also. What justification is there for calling these undertakings trading enterprises? If they were such, they would have ceased to exist long ago. In reality the local authority supplies these institutions at the general expense. Would it not be a more equitable method to arrange charges which would cover expenses, permitting an exception only where public utility justifies taxation in order that the service may be generally accessible?

The regulation of the price to be charged in cases where a profit is earned in similar work, when in private hands, is a subject of considerable interest. It may be useful to note that in Prussia the local authority is allowed to do exactly as it likes, as long as it does not make a loss.² There was a debate in the *Landtag* on the subject, and it was decided that local authorities ought to be given full freedom wherever possible, and that public opinion could be trusted to

¹ House of Commons Paper, No. 88 of Session 1899.

² Kommunalabgabengesetz, 1893, §§ 3 and 4.

prevent profit-earning from developing into taxation. It seems clear, however, that any profit should be applied in relief of general rates and not particular interests. This restriction is usually followed, but not always. Birmingham, for instance, during six years applied £200,000 out of the profits of its gasworks to improvement schemes.¹ This is hardly equitable, for the profits of gasworks are earned by the whole community, while improvement schemes benefit a limited number.

In general, however, the question of trading profits is an unimportant one. Very few corporations make any considerable profits. A good deal of misconception on this subject has been caused by a paper read by Sir Henry Fowler before the Royal Statistical Society. Sir Henry based his conclusions on the official return he had obtained, which professed to give net profits. In reality the figures represented gross profits before customary allowances had been written off for repairs, renewals, etc., thus making the sums earned appear much bigger than they are in reality.² Another important point to remember is that the bulk of the profits are made by a few prosperous corporations, while the average local authority just manages to scrape along. Taking gasworks, which are the only profit-yielding ventures of any importance,³ we find that the total annual profit is about £300,000.⁴ Of this sum one-third is contributed

¹ See Birmingham Corporation Accounts, 1892-1898.

² The present writer has discussed this question fully in the *Economic Journal* for March 1901.

³ See Sir Henry Fowler's *Municipal Finance and Municipal Enterprise*.

⁴ See present writer's "Note" in *Economic Journal* for June 1901.

by two corporations, and a second third by seven corporations. As regards the other local authorities, seventy-three contribute nothing at all, and thirteen contribute sums varying from £50 to £500 each. The question of prices is financially of little importance where profits are concerned, but the losses are worth attending to in a scheme of reform.

How far it may be desirable or possible to charge fees for services rendered in the case of other expenditure (*e.g.* hospitals, etc.) which cannot be included in even so elastic a term as municipal trading, is a question which might be left to the discretion of local authorities. There are also some educational institutions which can hardly be classed as "national" in their interest, and would therefore fall under this head. Technical schools which provide for the requirements of a particular district may well charge fees of a certain height. In such matters a country must to some extent be guided by its commercial competitors, although as far as Germany, our chief trade rival, is concerned, very erroneous impressions prevail as to the extent and nature of her subsidies to education.

In the light of Professor Sidgwick's evidence it is necessary to refer to the dangers of carrying the payment for value theory too far. Professor Sidgwick maintains that the present local taxation of the poor is justifiable, because a portion of local expenditure is particularly beneficial to these people—*e.g.* sanitation, burial grounds, open spaces.¹ Not only is it possible to question the accuracy of this assertion as regards facts—outbreaks of typhoid, etc., attack all classes, while open spaces exist principally in wealthy por-

¹ *Mem.* p. 110.

tions of a town,—the very idea on which the claim is founded must be repudiated. Even if it were true that expenditure on public health benefited the poor above others, the reason for undertaking the outlay has never been a love for the poor. The motive has been a desire for national efficiency, and expenditure on this purpose should not be defrayed by degressive taxation. As regards the local services alleged to benefit the poor exclusively, being “merely onerous to the rich,”¹ *e.g.* poor-relief, etc., and which Professor Sidgwick claims should therefore be defrayed principally by taxation of the poor themselves, one cannot conjecture how the author of the *Elements of Politics* wrote these sentences. Had he considered, Professor Sidgwick would have been the first person to condemn such applications of the benefit theory.

PAYMENTS FOR VALUE RECEIVED BY PARTICULAR AREAS

In addition to the cases in which certain individuals derive benefits from local expenditure which are greater than what we may imagine to be the benefits conferred on the average member of the general community, there are other problems to discuss. There is, for instance, the time-honoured question of betterment. This stale, old subject can perhaps be looked at from a new point of view. The problem of payment for value received may be considered not only from the point of view of individuals, but also as regards areas benefited. There is, for

¹ *Mem.* p. 110.

instance, a very beneficial scheme being undertaken at present for the fortification of the Forth Bridge. This outlay concerns every inhabitant of the United Kingdom from Land's End to John o' Groats, and contributions are accordingly levied within these limits. Street-lighting concerns only a particular locality, and contribution is therefore restricted to that area. Can this analogy not be carried further? Can we not say that to pull down houses and widen a street concerns only a limited district, and that the expense should be covered within that district and not spread over the whole town? Why should a distant suburb be taxed for embellishing a street miles away? Why should a person living on the north side of a town pay tax because there are some delightful sunny houses overlooking a park on the south side? There is no more reason for such a course than that Manchester should pay for the improvements of Birmingham. If we admit special areas of benefit for street-lighting, we need not refuse to go further and admit them for street-façades. Whatever view we take of incidence,—whether we regard rates as paid by owners or whether we agree with economists that beneficial rates are paid by occupiers,—there is no justification for taxing a whole town for the particular benefit of a small part of that town. In other countries we find such principles adopted. In America there are betterment assessments; in Germany they have them also, and, in addition, a system of cutting off a special district of a town for certain purposes. We ourselves admit the idea in our rural divisions: we have special drainage districts, special water-supply districts, and so on. In

former days we used even to go further, for, as Professor Seligman has pointed out,¹ the idea of betterment is not of American but of English origin.

WHOM TO CHARGE—OWNER OR OCCUPIER

But after eliminating all expenditure which can be brought home to individuals, or groups of individuals, and thus reducing as far as possible the expenditure to be spread over the community in general, there will remain a large residuum in which the interest is common to the whole locality. The most important question arises whether all of this expenditure should be defrayed by an occupiers' income-tax, or whether a part should be charged on the owners of land and buildings.

Unquestionably a portion of the so-called "beneficial" expenditure must be met by an income-tax. This expenditure is only beneficial to the district in the way in which central expenditure is beneficial to the nation. It is quite impossible to maintain that all local outlay confers measurable benefits; still less that it increases the value of land and buildings. Mr. Gomme, the statistical officer of the London County Council, made an attempt to establish that a penny added to the rates is a penny added to the value of real property, but if one reads his memorandum² and his evidence before the Commission,³ one can only give the opinion that his efforts have ended in failure. The value of property has risen during the period surveyed by Mr. Gomme, but no connec-

¹ *Essays in Taxation*, chap. xi.

² *Evidence*. Appendix to vol. i. part ii. p. 264 *et seq.*

³ *Ibid.* At Questions 8865 *et seq.*

tion can be traced between that rise and the whole of local expenditure during the interval. The writer begs the attention of the reader at this point while he makes clear exactly what part of the problem is being discussed at present.

There can be no doubt that social and economic conditions have increased the value of land in towns to a degree which is remarkable. There can also be no doubt that *in pure theory* a very strong claim can be made out on the part of the community to appropriate this increased value. This problem may be called "the appropriation of unearned increment," and with it we have nothing to do at present. That problem is not a question of finance, but of political science. It is simply a claim on the part of the community that a portion of the value of real property has been created by the community, and that the community ought to be allowed to appropriate what is its own. The connection of this claim with taxation is purely roundabout. The position has been well explained by Professor Smart, who suggests that all measures aiming at the taxation of unearned increment should have the following preamble:—

Whereas private property in land is robbery ; and whereas it would be legitimate to confiscate such land without compensation ; and whereas there is a simpler, easier, and quieter way of doing the same ; Be it therefore enacted by the King's Most Excellent Majesty, etc.

The appropriation of unearned increment has no more to do with orthodox finance than any other dispute about the ownership of certain things. It cannot be considered as anything else than a great misfortune that those who are anxious for reforms in

English local taxation should at present throw their energies into this channel while there is so much within the domain of practical politics which is allowed to lie unattempted. Not even in Prussia has the appropriation of unearned increment been solved, although in Prussia the ideas had more chance of realisation than in England. The government, compared with our own, is communistic ; the scheme, further, was advocated not by agitators, but by professors. And yet the project remains a dream. In any case, the matter is not one of taxation, and has therefore no place in this essay. What is being done now is to discuss how to distribute local expenditure according to the acknowledged principles of financial equity. We should make a very grave mistake if we mixed up with financial proposals any contests for the possession of property at present legally belonging to others. The point may be put even more strongly. There are two matters in dispute with regard to urban affairs : (1) that the present rating system is bad ; (2) that unearned increment should be appropriated. The first of these matters, involving a claim for financial reform, can be dealt with by arguments drawn from established principles of equity. There will be disputes regarding the application of the principles, but the principles themselves are generally acknowledged. The second claim is directly contrary to the law of the land and the existing institution of private property. To carry the claim will require a revolution. It is therefore bad diplomacy for genuine reformers to ally themselves with land-law agitators, for by doing so they alienate a number of possible supporters.

There is also another reason for separating financial

proposals from "peaceable means" of appropriating unearned increment which even avowed communists will admit to be reasonable. The basis of assessment for taxing unearned increment ought to be radically different from the basis of all other imposts. Some of the "swollen" site-values of central London, as the Royal Commissioners in favour of taxing sites so beautifully call them,¹ may have changed hands only yesterday in open market. To tax these sites in respect of unearned increment it is necessary to treat them on a special footing, because there is nothing about them that has not been paid for. To make up a basis for appropriating unearned increment you require a definite starting-point. In ordinary taxation you should assess on the whole value; in the utopian scheme you should assess on the value as from a certain date only.

We return, therefore, to the purely financial question of the distribution of local taxation which is not national. A part of local expenditure, as has just been shown, could be charged on definite individuals, and properly speaking ceases to be taxation; a further part might possibly be charged on more limited areas than the whole of the local district. Regarding the remainder, a considerable portion must be defrayed on the principle of ability, because it is devoted to general purposes. But there is also a portion of local expenditure, especially in towns, which is directly devoted to the improvement of the dwellings and other real property in the district. This expenditure increases the value of that property, and it is claimed that the cost should be defrayed by owners,

¹ Final Report, p. 160.

not by occupiers. An exact definition of the expenditure falling under this designation cannot be given. The local outlay charged on owners in Prussia is described in an Appendix. In Scotland owners are made to defray the following¹ (apart from one half of parochial taxation on national purposes and more than one half of county taxation):—

1. The whole cost of all sewage schemes (capital as well as revenue expenditure) not carried out under the Public Health Acts.
2. One half of all expenditure incurred under the Public Health Acts.
3. One half of the cost of all schemes met out of the General Improvement Rate.
4. One half of the expenditure under the Roads and Bridges Acts.
5. The whole cost of the repayment of old road debts existing before 1878, when existing arrangements were introduced.

Much discussion is possible regarding the proper purposes to charge on owners, and differences of opinion will always exist on this subject. At present a theoretical difficulty must be dealt with—namely, the opinion of political economists that rates on owners are superfluous,² a position which the Royal Commission have endorsed.³

¹ These are the provisions in general Acts. Various towns have, of course, private Acts. (For full particulars, see Schedule I. annexed to Memorandum prepared for Royal Commission by the Scottish Office.—*Evidence*, vol. i. part i.)

² See Answers to Question No. 9 set to the economic experts (vol. *Memoranda*, etc.); also summary of evidence in *Economic Journal*, vol. x. p. 485.

³ Majority Report, chap. ix. In reality the minority reporters take a similar view, for they advocate the rating of site-values on grounds which have nothing to do with improvements. See subsequent discussion.

The peculiar historical conditions under which English local taxation has developed have led to an abandonment of the old system of charging the owner with the cost of improvements to his property, and a substitution of the tenant as the person who defrays all local expenditure. Economists deny that there is any call for an alteration in this arrangement, because they maintain that the perfect adjustment of all things brought about by private bargaining, coupled with the complete power which tenants have over their landlord, make injustice impossible. It is considered to be immaterial who makes the payment for the improvement,—the landlord or the tenant,—because the tenant will always pay for any value he receives, and will always refuse to pay for anything which does not represent value. Professor Sidgwick's expression of the general expert opinion may be quoted:¹—

I do not see how the occupier can gain by the power of deduction, except on the assumption that by a strange want of foresight he does not adequately take the rate into account in bargaining about the rent.

The ordinary man is not prepared to see eye to eye with the political economist. The feeling current among "men in the street" is expressed by saying that tenants pay for an improvement, while landlords pocket the result in the shape of a more valuable property, *i.e.* a property for which a higher rent can be demanded. In short, tenants pay twice. Naturally such a belief appears horribly crude to an economist. It would be a very "strange want of foresight" indeed if any one paid for a thing twice over. The

¹ *Mem.* p. 108.

economic man never commits such folly. If he did, he would not be an economic man, which proves that he does not. It is necessary, however, to examine the position taken up by the economists.

There exists unanimity as regards the two central facts, namely :

(1) That a portion of local expenditure, especially in towns, is devoted to the improvement of real property.

(2) That the tenant ought to pay for the value of an improvement *once*. Just as he pays more for a house with a garden than for a house without one, so he ought to pay more for a house surrounded by paved streets, etc., than for a house without these conveniences. Such things cost money and have to be paid for.

For defraying local expenditure on improvements there are two alternatives :

(a) To charge the expense on the occupier. If the existing method of apportionment (on the basis of rent) is retained, this means charging by a rough income-tax which overburdens the poor.

(b) To charge the expense on the owner, leaving him to recoup himself in the ordinary course of his business, as he would do had he made the improvement himself.

In discussing these alternative methods it is necessary to distinguish between two classes of improvements : (1) Improvements which require to be renewed ; (2) Improvements which last for ever, or for an indefinitely long period.

The improvements which require to be renewed are the most common. Take, as a typical instance, a

street-pavement. A pavement may be kept in a state of efficiency for many years, but a point will be reached when further repairs become impossible and renewal has to take place. Let us assume that the "life" of a pavement is thirty years, at the end of which period the work has to be done over again. When the pavement was laid down the cost was met out of a loan, not out of rates.¹ By a system of instalments the cost of the pavement is spread over the "life." Practically it comes to this, that the expense of paving is an annually recurring charge which never ceases. Let us also imagine that the cost (instalments, interest, upkeep, and repairs) works out at £1 per house per annum. The reasoning adopted by economists is that it does not matter who pays the £1,—the landlord or the tenant,—because the tenant will get the benefit, and under either method will pay the cost. The following discussion, which criticises this reasoning, is purely problematical. The assumption is made that it is practically possible in England to charge the landlord (as is done in other countries), and it may be remarked that the correctness of this assumption is doubtful. But a discussion of the point is necessary to enable us to ascertain exactly how we stand in regard to the equity local-rates, for economists maintain that the existing method and the suggested tax on owners are in no respect different as to their effects.

I. If rate levied from owner. (a) *If rate is, to each owner, an exact equivalent of increased value.* Under these circumstances only one thing can happen,—

¹ The complication arising in the case of new streets need not be considered.

namely, that the tenant pays. Owners of real property derive their livelihood from rents, and may be trusted to look after their interests. If they improve their property with their own money, they do so in order to recoup themselves by raising rents; an improvement made by the owner is an ordinary business transaction. If the local authority improves the property and charges owners with the expense, the same process will occur. Certainly there is no possibility of injustice arising by collecting the cost of improvements from owners. (b) *If rate is not, to each owner, an exact equivalent of increased value.* Even the simple case of a paving-rate contains an element of "tax," because all streets in a town are not equally well paved, nor do they all require the same outlay on repairs, etc. The question of the relative merits of an owner's or an occupier's rate depends here on the respective degrees of power in bargaining possessed by sellers and purchasers. The present writer believes that owners would transfer even a paving "tax," because it represents the cost to them of getting the work done.

II. If rate levied from the occupier. In the opinion of the man in the street it does not follow that if the tenant pays for improvements he will necessarily "come out square." The members of the Royal Commission who are in favour of rating site-values say: ¹ "The complaint is sometimes expressed in the statement that occupiers pay for public improvements twice over—once in rates and again in increased rent." The reporters then proceed to argue (very inconsistently with their subsequent recom-

¹ Final Report, p. 156.

mendations in favour of rating owners), that this grievance cannot exist :—

As between lessee and lessor the complaint is to a large extent based on a misapprehension. Let us suppose that the benefit conferred by an improvement, put in pecuniary terms, is about equal to the burden of the rate levied therefor. [*N.B.* The reporters give no consideration to what would happen if the burden should be greater than the benefit.] In such a case the lessee during the currency of his lease bears the burden and enjoys the benefit, which exactly cancel each other. At the expiration of his lease it does not seem probable that he will remember the one and forget the other. If he remembers both in making a new bargain, he will decline to pay any increased rent, unless on some quite different grounds, and simply continue to enjoy a benefit and bear the corresponding burden.

This argument is based on the evidence of the political economists, which in its turn is founded on the enlightened action of hypothetical beings who bring a degree of knowledge to bear on the minutiae of the pecuniary aspects of life such as economists themselves admit does not exist in reality. The facts are these: The tenant under the present English system makes payments to two sets of people for one indivisible whole. He has to pay rent for land and buildings, and rates for the improvements added by local authorities. Is it possible for him to determine what sums ought to go to each of these two parties? How can a man possibly estimate the benefit received in return for his local rates, and the exact sum which he ought to pay his landlord for a house detached from paved streets, drains, etc.? Let the reader place himself in the position of the “economic man,”—that man in whom it would be “a strange want of fore-

sight" if he did not "adequately take the rates into account in bargaining about the rent." How is he to proceed? He sees a house which suits him, and asks what the rent is. The landlord's house-agent looks up his books and tells him that the rent is a certain figure—tenant to pay all rates. The first thing the reader has to do is to satisfy himself that the rent asked does not represent the full value of the house, but only the unimproved value. Nothing ought to be asked in respect of the value due to outlay undertaken by the local authority, because the tenant is to pay for that himself in rates. Streets, drains, etc., are all "extra," and the tenant's payments therefore are made to the local authority. The reader will probably become confused, and the present writer offers him his sincere condolence. The economic man, who looks through the professor's spectacles, will only regard confusion with supercilious amusement. An economic man can read off the value of things as he reads the time of day off his watch. We must assume, however, that the reader eventually arrives at some conclusion regarding the *net* value of the house. He will now prepare himself for his second labour and "adequately take the rates into account." This he does by ascertaining the rates, and finding out how much of his prospective outlay on local taxation yields a *quid pro quo*. He determines the benefit (put in pecuniary terms) from street-pavements, sewers, etc., and makes up his mind how much of the total rates is beneficial. A third and final test, however, awaits him. The reader will now start to "bargain about the rent."

From the landlord's point of view it is equally

impossible to understand how the present position can work out equitably. How is the landlord to determine how much he ought to ask for his property? Landlords may have a certain minimum rent below which they will endeavour not to let their property, but anything above this figure they will gladly accept. If the Commissioners' position were true to fact, it would necessarily follow that no local expenditure ever increases the market value of property by as much as a penny,—“the tenant will decline to pay any increased rent unless on some quite different grounds,”—and the accuracy of such an assertion is doubtful. The very method of statement shows the weakness of the case. Who is to be the judge between “different” grounds and similar grounds?

The present writer confesses that he is in favour of an owner's rate. If property is improved, it is increased in value. That is obvious. If property is increased in value its rent is raised. That is merely another way of expressing the same thing; a property increased in value without being increased in rental is a contradiction in terms. A property increased in rental through local expenditure is a payment twice over by the tenant. In a process like that of defraying the cost of an improvement it seems common sense to levy the contribution from the man who will collect the payments in respect of the other parts of the building. The owner is the person who, under a system of private enterprise, would have undertaken the outlay and recovered his expenses. In applying a similar method to local finance certain cases of hardship may possibly occur, because no rate can be a perfect “fee,” but the chances of inequity are

certainly less than the anomalies likely to arise from an occupier's income-tax, or an ungraduated rent-tax which throws an excessive burden on the poor. The whole point lies in this: if property is raised in value, rent is raised. Leave owners to look after their business themselves. To collect the cost of improvements to property from tenants is simply to do the landlords' work for them. The local authority constitutes itself a landlord's house-agent. It collects a payment in respect of part of the value of the house. The man in the street is perfectly justified in doubting whether competition is so perfect and knowledge so universal as to prevent landlords from doing a little collecting on their own account as well. Unless landlord's rent is the recognised method of payment it is likely to become an additional method.

Permanent improvements have now to be considered. By the present method of defraying the cost of permanent improvements there is unquestionably an undue burden cast on the occupiers of a local area. A typical case of such expenditure is the creation of a public park, or the improvement of some street or open place. Property in the neighbourhood is increased in value by such outlay, and permanently, without charge for renewal. Here also the loan may be by law repayable in thirty years. During the period of repayment injustice is inflicted, because the whole town is made to contribute, although many inhabitants will never be near the improved district in the whole course of their lives. After the term of repayment is completed there is injustice, because the cost has been cleared off and disposed of by tenants, while the benefit remains. This was the consideration

which led Professor Sidgwick to pronounce in favour of taxation of owners.¹

The report in favour of rating site-values refers to this problem of permanent improvement, and treats it in a most offhand manner. In the first place the matter is regarded as too unimportant to trouble about. "This claim might, perhaps, as far as regards the lessees' grievance, be disregarded on the *de minimis* principle."² Next the reporters shelve the whole problem in the following manner:—

In any case the problem is not essentially one between lessor and lessee,—though it may appear in this shape in certain cases,—but between successive generations, *i.e.* between the rate-payers of to-day and the rate-payers of to-morrow. If sinking fund periods are on an average too short (a proposition which we do not endorse), the remedy is to prolong them. No owners' rate can do anything like justice in this respect.³

Against this method of treating one of the great questions of the day, two considerations may be advanced: (1) The rate-payers' grievance is none the less, because the person who gets the benefit from his excessive taxation is not his present landlord, but the future generation of landlords, or even his successor in tenancy. The fact is this, that the beneficiary under the arrangement is not the person who has to pay for it. The present rate-payer is excessively taxed. (2) If the commissioners are right in refusing to "endorse the proposition" that the life of a permanent improvement is no longer than the average sinking fund period, *i.e.* thirty years, then the whole question lapses, but it is more probable

¹ *Mem.* p. 107.

² Final Report, p. 157.

³ *Ibid.*

that the commissioners' chronology is defective. As regards the assertion, "no owners' rate can do anything like justice in this respect," it seems rather that the very best way of securing justice is to make those pay who have the power to exploit the improvement.

It is desirable, before passing to the practical aspects of owners' assessments, to briefly summarise the whole position :—

I. THE POSITION OF TENANTS

Rates are at present levied on a uniform basis, which from time immemorial has served as the foundation of an indirectly assessed income-tax. If a tenant is called upon to pay a sum of £10 to his local authority he has to regard the impost in two aspects : (*a*) as a tax in respect of his ability ; (*b*) as a tax in respect of the improvements supplied to the property he occupies. As regards the payment under the latter head, he considers himself to have two grievances :—

- (1) That on *entering* into tenancy he has to pay a higher rent than he would do if there were no such things as streets, drains, etc., while he also has to pay the local authority for these things.
- (2) That on *ending* his tenancy he hands over a property which has been still further improved by outlay which the local authority has forced him to undertake during his tenancy, and the value of which is not exhausted.

II. THE POSITION OF OWNERS

The claim to subject owners to charges in addition to those which they pay at present in their capacity of occupiers of a house is brought forward in three forms :—

- (1) To tax in respect of unearned increment.
This claim is not only Utopian, but it should be separated from financial proposals.
- (2) To tax in respect of ability. This claim rests on the nature of English local taxation, which seizes income both where it is spent and where it is earned. If the claim is admitted the basis of assessment must be arranged so as to co-ordinate the owners' tax with the imposts levied on other earners of incomes. The tax must not be a mere hit at sites, or any other form of property.¹
- (3) To tax in respect of improvements. Here the argument is that certain local services add to the value of real property, so that if the owner pays the outlay he can recoup himself through raising rent. If the tenant pays, the owner can only be prevented from raising rent by the tenant making elaborate calculations of benefit which call for a degree of talent for higher mathematics such as providence has given to few.

¹ See Final Report, p. 167 (Minority report in favour of rating site-values), where the site-tax on owners is advocated on the ground of "ability to pay"—probably the most absurd statement in the whole course of that most absurd report.

CHAPTER IV

RATES ON OWNERS

THE theoretical aspects of the claim for defraying certain portions of local expenditure by a charge on owners instead of tenants have been discussed. The conclusion has been reached that equity to tenants can hardly be realised except by the adoption of payments by owners in respect of recurring outlay, as well as in respect of enduring improvements. It remains to approach the more practical aspects of the problem.

BASIS OF ASSESSMENT

The first point to consider is the question of apportioning the outlay. We have allowed the idea of benefit to settle one point—namely, *who* should pay ; we now approach the second question—namely, *how much* should these persons pay. The object to be secured is different from the problem which arises in regard to taxation proper. In taxation we aim at contribution according to ability ; in assessing in respect of improvements, the basis is a very much simpler matter. The charge to be placed on the owner is in respect of outlay which is assumed to be beneficial to his

property, and which will therefore secure him a return in the shape of increased rent. We need have no regard for the poverty or wealth of the contributor under such circumstances,¹ and many difficult problems vanish. Other complications arise, it is true, in their place. But just as in one case we, in practice, content ourselves with the very imperfect criterion of income, so in the present instance we may take some rough and ready standard.

It seems obvious, in the first place, that "annual value" has no connection whatever with enhancement due to local improvements. Two trade premises or factories may have very different annual values, because one is a costly structure with a great many fixed, and therefore ratable appliances, while the other is a mere shell. It is impossible to say that when a street pavement is laid down, the owner of one of these premises should defray a greater part of the cost than the other. This proposition is equally clear if the two premises are not lying side by side, but if one is situated in a central position of a town, while the other is in the outskirts. Annual value may again differ widely in these circumstances. In the one case competition for the advantage of situation is keen; in the other there is no special demand. Such conditions affect the rent obtained for the premises, but they exert no influence on the benefit derived from local outlay. The increased value of property in central positions is caused not by local improvements, but by causes which are extraneous

¹ An old sewer-rate, for instance, was levied "so that no tenants of lands or tenements, nor any having common pasture or fishing, rich or poor, nor other of what condition, state, or dignity . . . shall in any wise be spared in this" (6th Henry VI. cap. 4).

to the present inquiry. The same reasoning applies to dwelling-houses. A house of four storeys is of greater annual value than one of two storeys, and it may be equitable to "guess" that the tenant of the one has a larger income than the tenant of the other. But when a local authority wishes to assess the owners of these two houses for main drainage, rental is no criterion for fixing contribution.

In deciding on a proper basis for improvement rates, the present writer would suggest that it is desirable to inquire how prices are fixed under private enterprise, and that similar methods should be adopted as far as possible. When we go to a shop and purchase a collar, the shilling we pay has not the remotest connection with what the shopman may imagine to be the benefit conferred by possession of a collar. It has also nothing to do with what we ourselves consider to be the benefit derived from wearing a collar. A shilling is the cost of a collar. The only way to approach improvements is to adopt the same standpoint. A local body cannot attempt to calculate benefit. If we adopt any such measure we are led into inextricable confusion. Calculations of benefit are almost unknown in actual affairs; when they occur, it requires a British jury to settle them. To introduce estimates of benefit into local finance would involve the adoption of reasoning such as Professor Marshall employs in his famous doctrine of consumers' rent. The Professor devotes himself to calculating the benefit we derive from our various purchases, and while the speculation may be exceedingly interesting, it leads us far away from the conditions of real life. The measurement of consumers' rent is disputed by

political economists without achieving an approach to consensus of opinion, and if financial reformers take up a similar discussion, they will never get past the purely academic aspects of their problems. This conclusion is strengthened when we regard the matter from the point of view of the local authority instead of the owner. If a borough council were to assess according to benefit it might charge double the cost, or half the cost, etc., as the case might be. Calculation by benefit (*i.e.* what a person would pay rather than do without the thing in question) might lead to curious results in regard to rates for sewage disposal and the like. When we appeal to history, and examine the method adopted in England when improvement rates were in force, we find that benefit had nothing to do with the original basis. Benefit determined the area of charge, not the contributions. The "quantity," or acreage of land, as taken for the old sewer-rate; street-frontage, as taken for old paving-rates, would be roughly satisfactory once the central position was admitted—namely, that the outlay is an actual improvement. It may perhaps be noted that by the Prussian Reform Act the national taxes on land and buildings were abolished, and the cadastre handed over to local authorities. Owners' taxes are at present imposed on this basis (capital value), but local authorities are given power to depart from the cadastre, and it is hoped that they will originate some cheaper and also more satisfactory mode of assessment. The details are left to their discretion,

REPRESENTATION

Representation of owners on local boards is said to be inseparable from taxation of owners. This idea has been put forward by reformers who have advocated such a tax from the days of the Poor Law Commissioners¹ down to the present time.² It would be difficult to imagine any innovation more opposed to the accepted principles of government. Since when is taxation dependent on representation in this fashion? It is a new doctrine that the special consent of individuals is necessary before taxes can be imposed on them. The beer-duty is imposed with the consent of Parliament, not with consent of a plebiscite of beer-drinkers. It would be directly antagonistic to the spirit of the constitution if coal-owners, for instance, were given power to refuse their concurrence to the coal-duty, and thus override the deliberate policy of the nation. In the same way the claim for special votes on the part of owners is a most thoughtless application of the old shibboleth—no representation, no taxation. Of a different nature is the right of owners to be heard, if the amount charged on them in respect of a special scheme is excessive. Every "Betterment" undertaking is carried out in the public interest, and the public should bear the cost, which is not commercially remunerative. It can only be claimed that general taxation should be relieved by the equivalent of any special pecuniary advantage derived by particular individuals. But this right of owners arises

¹ See Report.

² See, *e.g.*, Professor Sidgwick's *Mem.* p. 108, or Debate in House of Commons, 19th February 1902.

from the fact that the recovery of "cost" is brought about by "forced exchange," not by "free exchange," and it merely leads to a demand for a hearing before a court of inquiry, not to a special voice in the management of the affairs of the locality.

SYSTEMS OF TENURE

Most important of all questions connected with the taxation of owners is the problem whether the complications of the leasehold system do not render such a proceeding impossible where this kind of tenure exists. A short description of the three methods of developing urban land will illustrate the point. The following particulars are taken from the report of the Royal Commission :¹—

1. The landowner may himself build on his land, or may sell it outright to some one else who builds on it. This freehold building system, which involves no leasehold tenure at all, is common everywhere, but especially in the north of England.

2. The landowner may part with his land in exchange for a perpetual, or practically perpetual annuity. Under this, which may be called the rent-charge system, we include three methods, which, though legally different, are substantially similar in economic character, inasmuch as the original owner retains practically no reversionary interest—

(a) The chief-rent system.

(b) The 999 years' lease.

(c) The Scottish feu system.

The distinguishing feature of the above two systems of tenure is that, practically, the landowner is eliminated as a separate personality. There is, no doubt, under

¹ "Report on Rating of Site-Values," Final Report, p. 153.

the methods 2—(a), (b), and (c)—a person who receives a fixed payment, which may be called a perpetual annuity, in respect of the land; but the amount of the annuity is determined for good, and will never increase, however enormous may be the rise in the value of the property of which the annuitant may still be a kind of feudal owner. As far as improvements or any other rise in value are concerned this person may be disregarded, for he is “out of it.”

The conditions arising under these systems of tenure may be illustrated by an example taken at random from Edinburgh. A school at present belonging to the Edinburgh School Board was built in 1824 on a plot of ground which the landowner gave over in consideration of a perpetuity of £2 : 11 : 11. To avoid confusion of terms this original landowner may be called the “superior.” The building was lately condemned by the town authorities, and must be pulled down. The property is now to be sold as it stands. The purchaser has to reckon with two people. He will have to pay the “superior” £2 : 11 : 11 per annum, and he must give the School Board the value of the remainder of the property. The price asked is £2400, which represents the cleared site (approximately, at least), subject to an annual charge of £2 : 11 : 11. The purchaser will become out and out owner for all practical purposes, and the “superior” or his assignees will draw their fixed annuity and not a penny more. Under such a system of tenure it is a perfectly simple affair to recover improvement expenses. The local authority has only one person to deal with, for the “superior” has no interests which can be affected under any circumstances which are

conceivable. It comes to this, that under ordinary systems of tenure the site-owner and the building-owner are one and the same person. Very different are the conditions under the leasehold system :—

3. Under the leasehold system as existing in London and many other towns, the freeholder grants building leases, reserving a “ground-rent” for eighty, or more commonly ninety-nine years, at the end of which period the land and also the buildings thereon revert to him.

The house when built is seldom occupied by the builder. He may let it, reserving an improved ground-rent, or he may otherwise dispose of it. In this way intermediate tenures arise, and instead of dealing with one out and out owner, you have to deal with a ground-owner who has granted a very long, but terminable lease, and an indefinite number of temporary “sub-owners” who have interests in the property for periods of varying but strictly limited duration.

The question arises whether it is possible to allocate the cost of an improvement over the many parties whose property may be increased in value thereby. The best opinion—namely, the opinion of the practical men who have busied themselves with this problem for many years—seems to be that it is impossible to devise any method of apportionment which would equitably distribute the charge for improvements over the persons concerned. If the test suggested by the present writer is accepted, this state of affairs is explained. As long as you have only one person to deal with, you can make the general assumption that the outlay is an improvement, and restrict yourself to recovering cost; but when a number of people have

to be taken into consideration and the cost allocated between them, then you are forced to enter into calculations of benefit. As soon as this happens, the case of accurate measurement arises. Two men might as well buy a joint collar, and try to allocate the shilling according to the benefit they derive. The case would have to be taken into court and settled by a jury.¹ Similarly, it is impossible to apportion the cost of improvements, and in this case there is the additional complication of contracts. To levy an immediate contribution on the ground-owner would be obviously unjust, because no increase in value can find expression in the rent he draws until the lease falls in, which may not happen for ninety years. The same applies to the temporary "sub-owners." They have signed leases stipulating for a fixed rental and obtain no benefits from improvements. Under such complications a system of payments for value received seems to be incapable of being carried out. Certainly no scheme at present before the public can claim to hold out prospects of being accepted. This conclusion in the meantime disposes of the question of reform as far as charges on owners are concerned.

The foregoing discussion, however, is very far from being of merely academic interest. Not only is it possible that further effort may achieve more satisfactory results, but two other considerations arise.

1. Local finance must in the near future become very much more decentralised and less uniform than

¹ When juries find it impossible to make up their minds in civil cases, they have been known to toss a coin. What else could they do?

it is at present, and if it should be found impossible to levy contributions on owners under the leasehold system, this fact ought not to prevent reform in places where the system of developing land is more simple. To defray the cost of improvements to certain people's property by the methods at present in use, is unquestionably one of the most glaring evils of the time, for it has been shown that existing rates are an income-tax on the general community, and an exceedingly objectionable income-tax.

2. Five members of the Royal Commission, after examining and rejecting the various proposals for taxing owners which their witnesses placed before them, claim to have discovered a solution of the problem. Their project is based on the following conclusion :—

After prolonged and careful consideration of these questions, we agree . . . that a direct charge upon owners is desirable. . . . It is, no doubt, a fallacy to suppose that there are huge untapped sources of revenue in connection with urban land, but it is not a fallacy to think that urban site-value is a form of property which from its nature is peculiarly fit to bear a direct and special burden in connection with "beneficial" expenditure.¹

Following on the inquiry with which the reader has been made familiar in the previous chapter, the commissioners' conclusion is surprising. The arguments which led up to this pronouncement prepared one for a decision against an owners' tax. But since the tax is recommended, it is necessary to examine the device suggested for carrying the idea into effect.

To achieve their object of charging the owner, the commissioners propose that the whole of the new tax

¹ Final Report, p. 165.

should be paid by the occupier.¹ The occupier is chosen as the person to pay the site-tax because existing contracts must be respected, and no charge placed on owners which they did not calculate on when they granted a lease.² Until the lease expires the whole tax is, therefore, to be paid by the occupier. Regarding the method of eventually charging the owner, the commissioners did not consider it really necessary to give the occupier special legal power to transfer the tax when his lease expires,³ because they considered that he could in any case by bargaining "shift" the whole on contracting a new agreement—"the ultimate incidence," say the reporters, "cannot be affected by the mere legal mode of charge,"⁴ but they propose to divide the tax in two and give either method a chance. One half of the site-tax the occupier is therefore to deduct from the rent he pays his immediate landlord when a new lease is entered into, the immediate landlord having again power to deduct from his immediate landlord on making a new lease, etc., etc.; the other half of the tax the occupier is to retain, and regard as a payment by himself. Before we proceed further, the reader may be reminded that the theory of "shifting" applies to onerous rates only. The reporters themselves have adopted the view that beneficial rates must always be borne by the tenant.⁵ Yet here we find a proposal to throw an improvement rate on the occupier in the expectation that it will fall on the owner. But let us leave scientific refinements and take the site-tax at what it professes to be.

The first and most obvious criticism on the

¹ Final Report, p. 171.

³ *Ibid.* p. 171.

² *Ibid.* p. 163.

⁴ *Ibid.*

⁵ *Ibid.* p. 156.

commissioners' scheme relates to the whole charge of the site-tax being temporarily placed on occupiers. Poor occupiers ! The result of the reporters' deliberations is to them like the judgment of Portia to the miserable Shylock. Occupiers have been pleading for a tax on their landlords, rightly or wrongly, and when they read the opening paragraph which heralds the new scheme—after prolonged and careful consideration we agree that a direct charge on owners is desirable ; that urban site-value is a form of property peculiarly fit to bear a direct and special burden in connection with "beneficial" expenditure—no doubt they exclaimed, or felt inclined to exclaim : " O wise and upright judge ! . . . Most learned judge ! A sentence ! Come, prepare ! " But by a course of logic, peculiar to the stage and to the report of the Royal Commission, an unexpected, almost a dramatic acquittal is secured to owners, while occupiers are to be subjected to fresh and additional burdens. No one wants such a tax.

Turning now to the period which is to release the occupier from one-half, at least, of the new impost, let us follow out the results to be attained by the transfer to the landlord. Let us also assume, for sake of argument, that the basis on which the tax is to be levied is a good measure for assessing in order to recover expenditure on improvements. A tax on owners was demanded, and the commissioners begin by evolving a definition of owner. The tenant, they maintain, is for the time being the true owner of the site.¹ The tenant gets the benefit from local outlay, and ought to pay for it. Unquestionably the com-

¹ Final Report, p. 164.

missioners are to a large extent in the right. The peculiarity of the very long contracts which arise under the lease-hold system is to give tenants interests in a property which are so substantial as to approach to the nature of an owner's interest. At the same time, tenant is not synonymous with owner. The owner has a reversionary interest and the tenant has none. No doubt by the new arrangement a payment will be secured from the landlord in respect of schemes which are in process of being paid off at the time of signing the lease. So far the proposal is to be welcomed.¹ But other grievances will not be remedied. An improvement may be started after a long contract is signed, and the whole expense cleared off before the agreement comes to an end. It is an important complaint of tenants at present that they hand over a property to their landlord which has been improved by expenditure of the tenants' money. As far as this may be the case, the owners' position will not be one whit different from what it is now. A definition of owner which draws no distinction between tenant and landlord begs the whole question. Landlord and tenant will always differ in this, that the reversion goes to the landlord. This difficulty is inherent in the lease-hold system, and it is not clear how a remedy can be discovered.²

¹ Subject to the assumption that the basis of assessment is correct.

² In agricultural leases cases of improvement sometimes occur. The landlord agrees to erect, say, certain buildings if the farmer will pay interest on the outlay, or part of the outlay. If this analogy could be applied to local improvements, a solution might be effected. Tenants, instead of paying capital cost, would pay interest only. This remark is only fit for a footnote. The parallel between farm buildings and public parks is not perfect. In the one case the extent of the improvement is certain, in the other it is not. The method of

As regards the other half of the new tax which, in the commissioners' own phrase, is to be "finally charged on the occupier," the proposal must be condemned without reservation. It is on the face of it absurd to call such an impost a "direct and special" charge on any one except the payer. The suggestion, however, has been made not only by the commissioners, but also by those responsible for the Bill recently introduced¹ in the House of Commons, where only one member objected to the use of the device.² The method seems to be within the sphere of practical politics.

It is a recognised expedient of financial practice to collect a tax from a person other than the intended tax-payer, if that tax-payer is hard to "get at." Thus the excise-duty on beer is collected from the brewer, the income-tax on money lent at interest is collected from the debtor. The proposed site-owners' tax is not however, of this nature. The taxes, we know, are instances of tapping at the *source*; the alleged site-tax is a project for tapping at the *destination*. It is one thing to tax the producer in the knowledge that he will be compelled by commercial competition im-

charging for the local scheme would have to be elaborately worked out on paper, and arguments of this kind are not good enough for purposes of reform agitation. Take even the simple case of putting a roof on to a house. Here it is absolutely certain that the whole money has been expended in a remunerative manner on the property in question, but even under such simple conditions a scheme for charging tenant, "sub-owners," and site-owner would be full of complication. Add to these all the uncertainty arising in cases of local improvement, and you get a proposal in which any one who wishes can pick holes to an unlimited extent. No political campaign can be carried on such finikin issues.

¹ 19th February 1902 (Urban Site-value Rating Bill).

² Mr. M'Crae (East Edinburgh).

mediately to transfer the tax on to his customers; it is a totally different thing to collect a tax from the consumer and look to him to perform the work in the opposite direction. Let us take an imaginary case from the beer trade. The government wish to tax people who drink beer, but they cannot conveniently get at them. They collect the tax from the brewer, and, roughly, they are justified in doing so. But suppose that for some reason the government wished to tax hop-growers¹ and could not do so directly. Would they be entitled to collect a tax from every one who drinks beer, and call that a "direct and special" tax on hop-growers? As far as the site-owners' tax is to be finally charged on occupiers, it is the parallel of the suggested duty on hop-growers.

Except in a few well-defined cases it is unquestionably necessary that "indirect collection" of taxes should be avoided, and that the impost should be levied in the most immediate manner from the person who is intended to bear the burden. In countries where owners are taxed, *e.g.* Scotland, Germany, France, America, etc., it is the owner who directly contributes. No government is entitled to impose taxes anyhow, and trust to vague influences and economic forces to produce the incidence which public policy demands. The present rates are collected from those who are intended to bear the burden—namely, the occupier. They represent an ancient form of income-tax. A financier is not entitled to add "extras" on to an income-tax and call them a site-tax. Political economists take up a position which is perfectly intelligible as the

¹ Hop-growers and not brewers are taken, because site-value is only part of the value of the house.

doctrine of a purely hypothetical science, but which is frequently misunderstood by men of affairs. The economists point out that an onerous tax imposed by the measure of rent will reduce the consumption of house accommodation, and thus produce an "effect" which does pecuniary injury to the purveyors of house accommodation. This abstract theory does not entitle financiers to stick taxes on to the person who lies most easily to their hands, telling him that if he "looks alive" he ought to be able to convert the tax into something different (for directions, see Jones, *Principles of Political Economy*). That is an entire fallacy. To force occupiers to pay a tax intended for owners is like administering justice on the principle of the whipping boy. It cannot be too emphatically asserted that if owners are to be taxed, they must be mulcted personally and not by proxy. Should the complications of the lease-hold system prevailing in London and other towns make it impossible to adopt this method with justice, then the project ought to be abandoned altogether and restricted to places where simpler conditions prevail. Politicians may find it impossible to produce an impost on owners, but this gives them no right to claim to have solved the mystery if they amerce somebody else and order that person to invent the tax. This, of course, apart from the fact that, on reasoning accepted by the reporters, a *beneficial* rate is under all circumstances borne by the occupier.

The commissioners' scheme requires to be very carefully scrutinised from other points of view. So far it has been presented to the reader as an attempt to rate owners for the benefits conferred on

real property by local improvements. This was the initial cause which led the reporters to make their inquiry. By what course of reasoning they reached their decision to place a burden on owners we are not informed. The conclusions arrived at in the preliminary parts of the report led one to expect the exact opposite of the finding given. The reader will remember that it was declared that no owners' rate could do anything like justice, and that the notion of a payment twice over by the occupier was a fallacy. Having come to this decision the reporters passed in review the various proposals for owners' taxes made by the London County Council, etc. They condemned these schemes. Then with absolute abruptness they declare that after prolonged consideration they "agree that a direct charge on owners is desirable."¹ After this they commence with care to justify such a proceeding. From the arguments advanced we find that taxation in respect of benefit is only a very small part of the objects to be achieved by "rating site-values." Had the proposal been an owners' improvement-rate pure and simple, it would have been necessary to dwell on the fact that the basis chosen for the tax is completely false to serve for an assessment in proportion to benefit conferred by local expenditure. But regarding the scheme as a whole, it is superfluous to weigh such details. Other and more important points claim our attention, for after careful study we realise that the title of this scheme gives an altogether inadequate impression of the scope of the remarkable project which has been put forward. The question of improvements sinks into

¹ Report, p. 165.

the background beside the other advantages claimed for the site-tax.

First and foremost among the arguments in favour of adopting the tax in respect of improvements there is placed a proposition which, besides having no connection with improvements, overturns the result of the recommendations, not of the five reporters only, but of the whole Royal Commission.

The majority of the commissioners have reported unfavourably on the rating of site-values, chiefly because of the position they adopted in regard to incidence. In the case of farmers it was assumed that it is the occupier and not the owner who pays rates. But as a writer in the *Economic Journal* has remarked, the commissioners consider themselves at liberty to pass in successive pages from the view that the occupier pays to the view that the owner pays.¹ They therefore report that owners bear rates, and that the value of land and buildings "do not constitute a fresh matter of assessment hitherto untouched, as is often supposed."² The five commissioners who wish to rate site-owners accept precisely the same theory of incidence. They express the opinion that "the owner bears the real burden of the part of the rates proportionate to the value of the site, and also probably of any exceptionally high rates."³ But they advocate the special taxation of sites all the same. The first reason for doing so is an important one. "There is," these commissioners say, "a special circumstance which appears to us to make the present moment especially fitted for the imposition of the

¹ Vol. xi. p. 328.

² Final Report, p. 39.

³ *Ibid.* p. 156.

proposed rate—a circumstance which, indeed, makes the imposition of such a rate indispensable to avoid injustice.”¹ What is this overwhelming reason, the reader asks? Nothing else than the two million additional subsidies which the commissioners have recommended. Thus say the emphatic and enthusiastic exponents of farmers:—

Under the proposals we have made (in the other reports) the burdens upon rate-payers in connection with onerous expenditure on national services will be permanently lightened in urban as well as rural districts. Now we admit, and indeed contend, that a large part of the present rates falls on the owners of site-values in towns. But the more the burden of rates falls on them now, the greater will be the ultimate relief which will accrue to them from the increase in State aid. Accordingly, unless the owners of urban ground-values are to be relieved at the expense of the tax-payer,—a course which probably no one would advocate,—it seems most necessary to accompany the increase of subventions in urban districts by the imposition of a site-value rate. . . . By this means, and by this means alone, the benefit from increased subventions will be secured for those for whom it is intended—namely, the occupiers, and especially the heavily-burdened occupiers in poor districts.²

We will not quarrel with the commissioners for imagining that land-owners “pay rates” in proportion to site-value. The evidence of some of their expert witnesses was open to such a misconstruction,³ at least to “the vulgar.” But even admitting a certain theory of incidence to prove that a decrease in rates must lead to an increase in rent, even then it is impossible to understand the commissioners’ position. The expert evidence submitted to them

¹ Final Report, p. 168.

² *Ibid.* p. 168.

³ See p. 137 *et seq.*

was unanimously and unequivocally to the effect that the theory of the shifting of rates applies very much more absolutely to *rural* than to urban tenure. Yet the double relief to rural occupiers of (a) doles, (b) general subventions along with other rate-payers, is not to be compensated by the taxation of rural land-values. And the scheme is even more ridiculous than this. It is not to be applied to all urban districts—not by any means. Its application is to be restricted to places of more than 10,000 inhabitants,¹ and even there it is not to be compulsory, but regulated “on the principle of local option.”² If by means of the rating of site-values,—“by this means, and by this means alone,”—the benefit of increased State aid can be secured to occupiers, and a relief of landlords at the public expense avoided, then the proposal for a tax, restricted according to local option and number of inhabitants, can only be described as inequitable in intention to the highest degree.

In execution all inequity would be removed, but at the cost of forcing rate-payers to relinquish the benefit from the new subventions in reduction of local taxation. As the reader knows, the site-tax is to be collected from the occupier and, to one-half, finally charged on him. The whole proposal, therefore, is nothing but this: *In order that the reduction in the rates of urban occupiers may not be a benefit to owners, the rates of urban occupiers must be increased.* That is the commissioners’ little scheme in a nut-shell. “It may, of course, be urged,” they admit, that the effect of the site-rate “would be to increase the burden upon occupiers.”³ Not a bit, rejoin the commissioners, and

¹ Final Report, p. 170.

² *Ibid.* p. 176.

³ *Ibid.* p. 171.

they hasten to show how their new tax, "even where it falls most heavily, would be counterbalanced by the relief proposed to be granted in the shape of increased subventions."¹ In this way the benefit of State aid is to be secured to those for whom it is intended.

Regarding subventions, the case now stands thus: Subventions are to be given because occupiers have grievances. A site-tax is to be imposed because occupiers get subventions. Because occupiers get subventions they need not object to pay a site-tax. (*N.B.*—Several cases of nice adjustment will arise under the graduated subsidies proposed by three of the five reporters!)

But the one and only means of avoiding injustice does not exhaust the arguments on which the commissioners rely for securing acceptance of their scheme for rating in respect of improvements. Even an appeal to love of justice is not calculated to secure particularly enthusiastic support at the present moment for a proposal which increases the burdens of occupiers, and withdraws with one hand the State aid given with another. The Chancellor of the Exchequer might even refuse to provide subsidies if they are simply to go to counterbalance a site-tax. With well-founded anxiety, therefore, the commissioners bring forward an almost endless array of other reasons in favour of their plan. Seldom has a scheme been submitted to the public for which so many advantages are claimed. The advantages, indeed, are so numerous that they had to be classified. We find them grouped under two headings: firstly, inherent advantages; secondly, "independent" advantages.² The first

¹ Final Report, p. 171.

² *Ibid.* p. 169.

among the independent advantages deserves to be noticed, because it is incidentally an onslaught on the accepted principles of rating, and aims at revolutionising the whole face of local finance.

As every one knows, the annual value on which rate-payers are assessed to local rates is, in the case of bona fide tenants, the amount of rent paid. The reporters discovered that a valuation of sites would enable local authorities to depart from this basis of assessment. "Rating authorities would be less dependent than they are now on the actual rent paid in fixing the valuation of the property."¹ Presumably the reporters had the idea of a tax "on property" in their minds at this particular moment, but surely even under such an interpretation of rates it would be unjust to depart from the rent-test. Even if local taxation were imposed in respect of ownership of property, the liability of the owner depends on the income he draws. Increase in the value of his property does not find expression, as far as he is concerned, until rent paid rises. It is exceedingly doubtful whether the owner of property should be mulcted according to the hypothetical income, which, it is calculated, he might be receiving if he had not made a certain contract.² The principle, at any rate, is revolutionary.

But rates are not a tax on property: they are imposed in respect of occupation, and are a tax on incomes guessed by rent paid. If a tenant takes a house at £100 a year, that is presumably what he

¹ Final Report, p. 169.

² According to the commissioners themselves, the true owner during the currency of a long lease is not the actual owner, but the lessee.

can afford to pay. The house may rise in commercial value before the lease expires, but this circumstance does not increase the tenant's income by one farthing. He is lucky in having a house which his means could not command at the moment, but there is no addition to his taxable capacity. According to the principle of indirect assessment we guess peoples' income from the figure they are prepared to "go" for a house, and in the present case that is £100. We do not tax luck, but income. The tenant may find that he has to leave when the rent rises at the end of the lease. The commissioners reason falsely when they maintain: "Those fortunate occupiers who hold an improving property at a rent fixed long ago ought not, in our opinion, to escape as easily as they do now from being rated on their full value."¹ What "their" value may mean, it be would be difficult to tell, but in any case the proposal strikes at the root-idea of the whole fabric of English rating. You might as well assess tea-drinkers, not on what they pay for tea, but according to some estimate of their full value of tea.

Reviewing the proposal for an assessment on site-values as a whole, the principal defect of the scheme does not lie so much in its numerous advantages, nor in the incompatible functions it is to serve, but in this, that it is not a local rate at all. Assuming that the project were technically sound, what object of local finance would it serve? We find it proposed that the rate per £ should not be dependent on local expenditure, but should be "strictly limited" by Parliament.² Such a provision is contrary to all principles of local taxation. Invariably rates are levied for cover-

¹ Report, p. 169.

² Final Report, p. 172.

ing definite outlay. They may sometimes be limited by the introduction of a maximum, but this only implies that the local power of spending is checked; the limitation of the rate brings limitation of the outlay, for the deficiency cannot be made good out of other rates. In the case of this new impost the expenditure is unrestricted, but the source of revenue is rigidly defined. Such a departure from accepted principles cannot be admitted. If the tax is too small, there will be injustice to occupiers; if the tax is too high, there will be injustice to owners. The claim to tax owners in respect of improvements is a claim with as accurate limitations as any other. Every one concerned must know what is happening: they must not merely be called upon to pay a tax fixed, so to speak, in the dark.

The site-tax is not a local rate: it is a tax on unearned increment. The reporters may claim: "We would commend our proposal as an honest attempt to make the owners of site-values contribute fairly to the expenditure from which they derive benefit,"¹ but no steps are taken to give the tax this character. Site-value only² is to be rated, and the tax is to be determined by Parliament. No limited rate can be in respect of fluctuating local outlay; and whatever may be the measure of benefit, it is certainly not site-value. The value of urban sites is created by many

¹ Final Report, p. 172.

² The reason for exempting buildings is, that there is greater "ability to pay" in respect of site than of building (Report, p. 167)—a curious reason for *total* exemption. Apart from the fact that the reporters are not supposed to be making a tax according to ability, it is obvious that a speculator in sites who makes £100 has just as much ability as a speculator in buildings who makes £100.

causes, and to place a differential impost on site-value is to tax in respect of these causes; that is, to seek to mulct unearned increment. The proposal made by the commissioners has not the remotest connection with assessment for improvements. Until one grasps this fact, the scheme is unintelligible. But having dismissed from one's mind all ideas of rating in respect of benefit, the object of the commissioners' plan becomes clear. It is an attempt to appease agitators by a policy of concession. Two classes of persons assailed the commissioners—the Hereditary Burden bigots and the Land Law agitators. To the bigots substantial satisfaction is to be provided. They claimed that national subventions are doles to landlords, because a reduction of rates produces an automatic expansion of rent. The decrease of rates is, therefore, to be counteracted by an increase of rates (farmers and parsons excepted). For the arguments of the land agitators the commissioners have less sympathy, but equal respect. "We should be sorry," they say, "to lend any countenance to the crude and violent theories which some witnesses have placed before us on the subject of the taxation of land. But a cause which is reasonable itself ought not to be prejudiced by the excesses of its unreasonable advocates, and a careful consideration of all the particular circumstances of urban local taxation has led us to the conclusion that a moderate rate, proportioned to site-value, ought to be imposed as a part of any scheme for the readjustment of the burden of local taxation in urban districts."¹ This is the meaning of all the safeguards and restrictions with which the

¹ Final Report, p. 166.

new tax is to be hedged—measures of precaution which no other local rate requires. It is also the explanation of the open contradictions which disfigure the report. Rating of owners for improvements is repudiated, and it is admitted; agitators are appeased, and the lieges are reassured. As a sop to agitators, the measure is advocated because “it will be a means of securing a somewhat larger contribution from the owners of the swollen site-values of the central districts of our cities;”¹ because “it would conduce to placing the urban rating system on a more equitable and thus sounder basis;”² because “it would be an admission that there were defects in the urban rating system.”³ The terrified lieges—some of whom may have bought these “swollen” sites only yesterday as an investment—have then to be set at ease, and many are the blandishments introduced for this purpose. The whole great scheme is said to be desirable “on political and sentimental grounds, however little effect such a change may have upon the real incidence of taxation.”⁴ Or again: “the essence of the rating of site-value is *not a charge upon owners*, but a local redistribution of burden.”⁵ Redistribution of burden being, however, a very palpable euphemism for an increase in somebody’s burden, owners are earnestly begged to consider that a site-tax “should go some way towards putting an end to agitation for unjust and confiscatory measures.”⁶ To grant agitators a little in order that they may not demand the whole—that is the reporters’ final recommendation.

¹ Final Report, p. 168.

³ *Ibid.*

⁵ *Ibid.* p. 165.

² *Ibid.* p. 176.

⁴ *Ibid.* p. 165.

⁶ *Ibid.* p. 176.

But just as their advocacy of doles to farmers and parsons will only open the way to unlimited claims on the national resources, no matter how firmly the line may be drawn at a single further exemption, so the adoption of a tax on unearned increment would be an obvious introduction of the thin end of the wedge. Agitators would be given a foothold¹ and not a quietus, let the principle of the new tax be ever so piously damned, and Parliament cautioned to make the rate "strictly"² fixed and "moderate"³ in amount. There certainly is a danger in the wide popularity which measures of confiscation attain at present, but the unrest of the public arises from the prevalence of a vague feeling that something is radically wrong about local taxation. The way to obtain security and a lasting settlement is to reform local taxation on the principles of finance, not on the principles of concession.

¹ These conclusions do much towards bringing the taxation of site-values to the level of practical politics. (Mr. Sawyer in *Economic Journal*, vol. xi. p. 333.)

² Final Report, p. 172.

³ *Ibid.* p. 166.

APPENDIX I

THE FRENCH "CONTRIBUTION DE PATENTE"

THIS tax is assessed by the central authorities, and serves both central and local purposes. The local authorities impose *centimes additionels* for the purposes of their districts. The object aimed at is the taxation of incomes earned in trades and professions by outward criteria alone. In this way fraud is prevented, and the interference of officials (an inevitable accompaniment of the "declaration of income" system—compare the *dossiers* collected by our authorities at Somerset House) reduced to a minimum. Great care has been devoted to the development of the tax, and the perfection of the administrative details is said to be remarkable.

The tax is composed of three portions : (1) a fixed duty (*droit fixe*), determined by the nature of the business ; (2) a proportional rate on the rental value of the premises (*plus* the owner's dwelling-house in some cases), rising from 10 per cent in the case of small rentals to 15 per cent in the case of larger rentals ; (3) what may be called a license-duty on the occupation carried on in the premises. This license-duty, which forms the most important part of the tax, is assessed under four schedules (A, B, C, and D). Schedule A includes shopkeepers and tradesmen, and covers five-sixths of the persons liable to the tax. Schedule B includes so-called *hauts commerçants*, viz., bankers, money-brokers, insurance-offices, large merchants (*negociants*), etc. (forming 1 per cent of the persons liable).

Schedule C includes manufacturers, shipping-owners, railways, mines, etc. (12 per cent of persons liable). Schedule D includes the "liberal" professions, and the whole tax in their case takes the simple shape of an inhabited-house-duty.

To illustrate the working of this license-duty, further details of Schedule A may be given. The tax, in the first place, varies with the size (reckoned according to number of inhabitants) of the town or village. Nine classes of this kind are provided for. Among the occupations assessed in each district eight groups are made, liability to come under any particular group being determined by criteria, which are regulated by an exceedingly intricate body of laws. The tariff in Schedule A is as follows:—

Group.	Class (Determined by number of Inhabitants).								
	1 Paris.	2 Above 100,000	3 Above 50,000	4 Above 30,000	5 Above 20,000	6 Above 10,000	7 Above 5000	8 Above 2000	9 Below 2000
	Francs.	Francs.	Francs.	Francs.	Francs.	Francs.	Francs.	Francs.	Francs.
1	400	300	240	180	120	80	60	45	35
2	200	150	120	90	60	45	40	30	25
3	140	100	80	60	40	30	52	22	18
4	75		60	45	30	25	20	15	12
5	50		40	30	20	15	12	9	7
6	40		32	24	16	10	8	6	4
7	20		16	12	8	8	5	4	3
8	12		10	8	6	5	4	3	2

Numerous exemptions are granted, for instance, to wage-earners, hawkers, midwives, etc. The most notable exemptions are those given to agriculturalists and to fishermen.

Regarding the tax Professor Bastable says: "The *Patente* has the two great advantages of being productive and not very popular" (*Public Finance*, p. 428). No one, however, would recommend the impost for adoption by English local authorities. It is only referred to as an example of what is involved in the indirect assessment of trade profits.

APPENDIX II

THE PRUSSIAN REFORM OF LOCAL TAXATION

BEFORE 1893 the position of local taxation in Prussia was somewhat similar to what it is in England to-day—namely, that an income-tax was practically the only source from which expenditure could be defrayed. There was, it is true, legal power to make use of the national taxes on the capital value of land and buildings (Grundsteuer, Gebäudesteuer), and of the national tax on trades (Gewerbesteuer), but various causes prevented local authorities from availing themselves of these sources of revenue. Dissatisfaction with the existing state of affairs was deep, and the government was the more ready to listen to the grievances of local tax-payers because the exclusive reliance on the income-tax seriously interfered with the development of that impost for national purposes. In 233 cases the local income-tax (*i.e.*, addition to the national tax) was more than three times as heavy as the national tax itself, in 13 cases it was more than five times as heavy, and in a few cases it amounted to six times the rate of the national income-tax. Three government Bills dealing with reform were introduced one after the other in the years 1877, 1878, and 1879, but they were considered to be inadequate, and had to be withdrawn. Next a general scheme of subvention on the English model was tried (the so-called *lex Huene* of 1885, which is noteworthy as the only exchequer contribution in *general* aid of local taxation which has

existed in Prussia), but the device was found to be extravagant. The credit of having prepared a comprehensive scheme of reconstruction belongs to von Miguel. He decided, in the first place, that central subventions in aid of local taxation should be kept within the narrowest possible limits, and that local authorities must receive wide powers of creating taxes of their own. To provide opportunities for new local taxes, the central government handed over certain of its revenues, meeting the deficiency by a reform of the income-tax.

Local sources of revenue.—Passing over the provisions for fees, dues, betterment rates, etc., the local taxes divide themselves into three groups. (1) The national taxes on the owners of land and buildings were repealed, and made purely local sources of revenue. In the meantime the cadastre is placed at the disposal of local authorities, so that the new local taxes are mere repetitions of the former national impost, but great hopes are expressed that the expensive survey may some day be abandoned. Local authorities have full powers to modify the assessment of their taxes on the owners of real property. (2) The national tax on trades was also repealed, and transferred to the domain of local finance. (3) The treatment of the income-tax is different. The assessments to this tax are made for central purposes, and local authorities must impose "additions" along with the national tax. In order that the burden of local additions on the income-tax might be reduced still further than is done by the introduction of new taxes, Miguel did his best to provide for the substitution indirect assessment. At this point he was only partially successful. The clause in his Bill which would have given local authorities power to rely entirely on indirect assessment was rejected by the *Landtag*, and a new clause introduced which prohibited the use of a house-duty. Under this restriction it is safe to assume that indirect assessment of income will never develop, for expenditure on rent is the one criterion which can be made the basis of a general guess at income.

Employment of the various taxes.—The difficulty of deciding what expenditure is of general interest, and what expenditure confers special advantage on particular people, is well illustrated by the provisions which regulate the employment of the various taxes in the local budget. The subject is approached from two points of view. In the first place, the following general directions are given :—

(a) Such expenditure as by its nature accrues to the advantage of all members of the community, or is caused by all members equally, should be defrayed by the income-tax.

(b) Such expenditure as by its nature confers benefit exclusively or in a preponderating degree on owners of real property, or on traders, must be raised by the special taxes on these persons.

(c) Such outlay as is incurred in the general interest, but which at the same time confers special advantages on owners of real property, or on traders, should be equitably distributed over taxes on income and on real property and trade.

Obviously the interpretation of such vague directions is entirely dependent on individual opinion. In order, therefore, to place a limit to the disputes which may be expected to arise at local boards regarding the particular tax which ought to be charged with various items of expenditure, the general directions are supplemented by fixing maxima and minima for each tax. The standard from which these calculations start is the national rate—that is to say, in the case of the income-tax the rate levied by the central authorities at the time ; in the case of the taxes on real property and trade the rate levied before the abolition. If, then, the requirements of the community are such that the necessary revenue can be secured without burdening the taxes on land, buildings, and trade more than 100 per cent, then the income-tax may be used at a lower rate or dispensed with. If the taxes on land and buildings and trade exceed 100 per cent, then the

income-tax must be used to the extent of not less than 66 per cent (two-thirds). If all taxes require to be used up to 150 per cent, then for every additional 1 per cent placed on land and buildings 2 per cent shall be placed on the income-tax. If the taxes on land and buildings and trade exceed 200 per cent, then the whole remaining levies must be thrown on the income-tax. This seemingly elaborate idea was arrived at after many years of popular discussion (see Wagner, *Die Kommunalsteuerfrage*, 1878), and it is probably the only way of checking agitation by vested interests.

In judging the practical utility of the Prussian reform as a guide for England it must not be forgotten that the chaos of areas and chaos of authorities which characterises the administrative portion of our local government is absent on the Continent.

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THE END

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